CARTER'S

ADVANCED

ACCOUNTS

KEY TO
CARTER'S ADVANCED ACCOUNTS

By R. A. GOODMAN

This Key has been prepared for the purpose of giving assistance to teachers and students in the correction of work. All the exercises in CARTER'S ADVANCED ACCOUNTS are worked, and every care has been taken to ensure that adequacy and accuracy which are essential in a book of this kind.

It is a *full Key, not a skeleton*, and contains *Model* solutions to more than 800 practical exercises on all phases of book-keeping and accounts.

Valuable notes, which elucidate difficult points, have been interspersed throughout the Key.

CARTER'S

ADVANCED ACCOUNTS

A MANUAL OF BOOK-KEEPING AND ACCOUNTANCY FOR STUDENTS

Fourth Edition

FOURTH EDITION

LONDON
SIR ISAAC PITMAN & SONS, LTD.

First published 1919
Reprinted 1921
Reprinted 1923
Reprinted 1926
Second edition 1929
Reprinted 1931
Reprinted 1934
Reprinted 1936
Reprinted 1938
Reprinted 1939
Third edition 1941
Reprinted 1944
Reprinted 1946
Revised and reprinted 1949
Fourth edition 1950
Revised and reprinted 1953
Reprinted 1955

SIR ISAAC PITMAN & SONS, LTD.
PITMAN HOUSE, PARKER STREET, KINGSWAY, LONDON, W.C.2
THE PITMAN PRESS, BATH
PITMAN HOUSE, BOUVERIE STREET, CARLTON, MELBOURNE
27 BECKETTS BUILDINGS, PRESIDENT STREET, JOHANNESBURG

ASSOCIATED COMPANIES
PITMAN MEDICAL PUBLISHING COMPANY, LTD.
45 NEW OXFORD STREET, LONDON, W.C.1
PITMAN PUBLISHING CORPORATION
2 WEST 45TH STREET, NEW YORK
SIR ISAAC PITMAN & SONS (CANADA), LTD.
(INCORPORATING THE COMMERCIAL TEXT BOOK COMPANY)
PITMAN HOUSE, 381–383 CHURCH STREET, TORONTO

MADE IN GREAT BRITAIN AT THE PITMAN PRESS, BATH
E5—(B.1405)

PUBLISHERS' PREFACE

This textbook was originally edited by the late Mr. Roger N. Carter, M.Comm., F.C.A., Lecturer in Accounting at the University of Manchester, and is still familiarly known as "Carter" by hundreds of thousands of practitioners, teachers, and students. For this Fourth Edition the book has had a thorough revision. Mr. G. W. Murphy, B.A. (Com.), F.C.A., and Mr. F. A. Bailey, A.C.A., have been responsible for the chapters affected by the Companies Act, 1948, and the Finance Act, 1949; and the Publishers thank them for their expert assistance in this connexion.

A study of the book will fit the student of book-keeping for most of the ordinary public examinations in this subject. It contains considerably more than is necessary for examination purposes, and the student who is fully conversant with all the matters dealt with has no need to fear the result of such a test. Great pains have been taken to include all matters referred to in the syllabuses of the various examining bodies.

Although the principles of double entry book-keeping are universally accepted, there are, of course, differences of opinion as to the best methods of applying those principles. Where several ways of achieving the same result are in vogue, these have, in many instances, been given. It has been thought, also, that the inclusion of the more theoretical methods, as well as the practical methods, will have the effect of making the explanations clearer to the student of the subject.

Numerous exercises are given, the answers to which are inserted at the end of the book. The first part of the set of exercises at the end of each chapter contains tests on the work of that particular chapter, while the latter part consists of revisionary exercises on the previous work.

HINTS REGARDING EXAMINATIONS

"Knowledge" of a subject is not synonymous with a "mastery" of that subject. Examinations in accountancy are held with a view to the measurement of the examinee's *mastery* of the subject. The degree of mastery is gauged by the way in which the acquired knowledge of accountancy has been applied to practical problems set for elucidation. Retailing the knowledge of the subject in the

form of stereotyped answers to questions set does not convey to the examiner the best impression of the examinee's ability.

The really deliberate purpose of an examination is to "prove" the examinee in two main directions, namely, in tests of "executive ability" and "initiative." The examination is the means provided to this end, and examinees are advised to essay the task of an examination in the avowal that an examiner shall receive ample evidence of these valuable qualities.

Disconcerting elements, contributing not a little to "examination nerves," are the notions entertained by some candidates that the examination paper contains traps or pitfalls into which the unwary candidate may ignominiously stumble.

These views lead to loss of confidence, and it is suggested that examinees should refuse to be influenced by such notions, and should recognize that examinations in accountancy are set to bring out the latent powers of independent action.

"Nerves" seems an ailment common to many candidates when confronted with the task of working the examination paper. It will be an aid to composure if the question which the candidates find most easy to answer is attempted first. Each candidate is happy in the conceit (justifiably so!) that at least one aspect of the vast subject of accountancy is thoroughly mastered. Well, tackle the question which it is thought bears on the phase of the subject so well understood. This task does not call for tense action, it just demands an easy mental effort which, it will be found, reduces the condition of flurry, and creates a sense of confidence and control. Many candidates think that the heavy task of final accounts *must* be attempted first because it is the major question of the test. This view is not necessarily right. Until the tension at first experienced has passed, it may be better to deal with a shorter question first.

When comparisons or differences are elicited by the questions set, a neat graph, chart, or tabulated statement conveying such results will please an examiner, and yield a much more businesslike answer to his question than is conveyed by the essay type. Where the essay form is used it is advisable to be as concise as possible.

Examinees are strongly recommended to read carefully the examiners' reports which are published by most of the examining bodies. Many valuable hints are given in these, more especially regarding the more common errors to avoid.

Finally, take the examination test with a smile. Remember, it is provided to prove your mastery of the subject, and not to expose your lack of ability. Therefore, study to be master of the situation.

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CHAPTER I

BOOK-KEEPING UP TO THE TRIAL BALANCE

Definition of Book-keeping. Book-keeping is the science and art of correctly recording in books of account all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording mercantile transactions in a regular and systematic manner; the art of keeping accounts in such a manner that a man may know the true state of his business and property by an inspection of his books.

Objects of Book-keeping. The objects of book-keeping are twofold—

1. To have a permanent record of all mercantile transactions.
2. To show the effect of each transaction and the combined effect of all the transactions upon the financial position of the party concerned.

CAPITAL

Definition. In book-keeping, the Capital of a *business* is the sum total of its assets; and the Capital of the *proprietor* of the business is the surplus or excess of assets over liabilities. An excess of liabilities over assets is called a **Deficiency.** In the case of a joint stock company, however, Capital is the amount contributed by the shareholders, without taking the assets and liabilities into consideration at all.

Trading Capital consists of the fixed and floating assets.

Fixed Capital comprises all the fixed assets.

Floating or Circulating Capital consists of the floating or circulating assets.

Positive Capital is represented by material assets, such as land, buildings, stock, machinery, etc.

Negative Capital consists in the amount of *credit* that a trading company or firm can obtain.

Money borrowed by means of ordinary loans, mortgages, debentures, bonds, etc., is frequently spoken of as **Loan Capital.** Some accountants, however, consider it loose to describe such a *liability* as *capital.*

Working Capital is the amount that remains for the working or running of a business after the purchase price of the fixed assets

has been paid. Thus, if a trader started with a capital of £20,000 and expended £12,000 of it in the purchase of buildings and plant, then the balance of £8,000 would constitute the *working* capital. This term is also applied to the excess of floating assets over current liabilities.

ASSETS

Definition. Assets are the property and possessions of a business, i.e. its stock, land, buildings, book debts, etc. They are classified according to their nature and are of various kinds—

Fixed Assets are those acquired and held permanently for the purpose of earning income, as, for example, plant and machinery, lease, etc.

Current Assets are those assets such as cash, book debts, etc. Assets that can easily be realized and are therefore readily available to discharge liabilities are also current assets. Further examples are gilt-edged securities, bills receivable, stock in trade, etc.

NOTE. The same asset may be either fixed or current according to the nature of the business. Thus, investments would be a current asset to a stock-broker, but a fixed asset to an ordinary trader. Machinery would be a fixed asset to an ordinary manufacturer, but a current asset to a machinery trading company. Horses to a horse-dealer would be a current asset, but to a cartage contractor a fixed asset. It depends on whether the asset is held merely for the purpose of sale, or is intended to be kept in the business.

Intangible or Fictitious Assets are those the real value of which *may* be extremely doubtful and might quite conceivably be nothing, such as Goodwill, Patents and Trade-marks, or items which are merely debit balances not written off. Examples of the second type are Preliminary Expenses of a Limited Company or Profit and Loss Account debit balance.

Wasting Assets are fixed assets that depreciate through wear and tear; as, for example, plant and machinery; those whose value expires with lapse of time; such as patents and leases; also those that become exhausted or consumed through being worked; such as mines, quarries, etc. The expression is more generally applied to the last named.

ACCOUNTS

Definition. An account is a Ledger record, in a summarized form, of all the transactions that have taken place with the particular person or thing specified; as J. T. Brown's Account, Plant Account, Wages Account. There are two main divisions of accounts—

1 **Personal Accounts** comprise both debtors and creditors. Debtors are people who owe money, e.g. persons to whom the firm has sold goods. Creditors are people to whom money is owing, e.g. persons from whom the firm has bought goods.

2. **Impersonal Accounts** include both real and nominal accounts.

(*a*) **Real** or **Property Accounts** are those that refer to *assets*; such as plant and machinery, stock-in-trade, cash, etc.

(*b*) **Nominal Accounts** are those that relate to *gains and losses*; such as discounts, wages, rent, rates, sales, purchases, etc.

NOTE 1. Some accounts though *impersonal* in name are really *personal* in signification. For instance, the Capital Account and Drawings Account are personal accounts either of the proprietor of the business or of the partners thereof, who are creditors of the concern for the amount of their capitals, and debtors to the extent of their drawings. An account for outstanding items, though *impersonal* in name, is really a *personal* account, being merely the account of unnamed creditors or debtors.

NOTE 2. Some accounts are both *real* and *nominal*; as, for example, the Sales Account, which is a real account so far as the goods themselves are concerned, but nominal in relation to the gain or loss arising from the sales.

SYSTEMS OF ACCOUNTING

The modern system of book-keeping or accounting in use is known as "double entry."

Double Entry is a system of book-keeping by means of both *personal* and *impersonal* accounts.

Single Entry (in which only *personal* accounts are kept) can scarcely be dignified with the name of a "system," and can only be described by showing its deficiencies as compared with Double Entry. It is dealt with later in Chapter IV.

THEORY OF DOUBLE ENTRY

Two-fold Aspect of Transactions. Every transaction that results in a transfer of money or money's worth involves a two-fold aspect, (*a*) the yielding of a benefit, and (*b*) the receiving of that benefit. It is impossible to think of one without the other; a giver necessarily implies a receiver, and a receiver necessarily implies a giver. The giving and receiving, however, take place between *accounts* and in the *same* set of books. Thus, if furniture is bought from Smith, Furniture Account *receives* and Smith's Account *gives*. Hence, to have a complete record of each transaction there must be a *double* entry. The one transaction has,

therefore, to be booked up *twice*, an entry being made in the receiving account, and a similar entry in the giving account.

Debit and Credit. In order to distinguish the two entries necessary for the complete record of a transaction, the Receiving Account is termed **Debtor,** and the Giving Account is called **Creditor.** The two sides of the ledger account in which each transaction is recorded are likewise arbitrarily distinguished, the left-hand side of the account being termed **debit**, and the right-hand side being designated **credit.** Thus, we see that each transaction involves two entries in the same set of books, a *debit* entry and a *credit* entry; and that every debit must, therefore, have a corresponding credit and vice versa. Upon this foundation has been reared the whole superstructure of modern double entry book-keeping.

Advantages of Double Entry. These may be enumerated as follows—

1. *A Complete Record of each Transaction.* In double entry not only are personal accounts kept, but impersonal accounts are also opened in order to record all those transactions that involve assets, gains, or losses; as, for instance, the purchase of plant, the payment of wages, the receipt of discount.

2. *Full information concerning the Business.* The information supplied by the books is not limited to the debtors and creditors as in Single Entry. The impersonal accounts furnish additional information concerning the property and assets of the business, and the various gains and losses.

3. *A Check upon the Arithmetical Accuracy of the Clerical Work.* Since every debit has a corresponding credit, the total debits must at any time equal the total credits. Whether this be so or not is easily ascertained by means of a Trial Balance. Again, the difference between the assets and liabilities on the Balance Sheet must be equal to the balance of the Capital Account in the Ledger.

4. *The Preparation of a Trading and Profit and Loss Account and Balance Sheet.* This can be done from the double entry books themselves, as they are self-contained.

NATURE OF LEDGER BALANCES

Debit Balances. The *debit* balances in a Ledger may be classified as either assets, expenses, or losses. If they denote debts, e.g. accounts receivable, or if they represent tangible expenditure, e.g. property, such as plant, fixtures, etc., they are assets. If they represent intangible items such as wages, rent, etc., they are expenses; whilst discounts allowed are losses.

Credit Balances. The *credit* balances that are in a Ledger must be either liabilities or gains. If they denote debts, e.g. accounts payable, they are liabilities; if they represent income, such as discounts received, they are gains.

NOTE. The above distinction is of the utmost importance in the preparation of a Profit and Loss Account and Balance Sheet, as gains, expenses, and losses are entered in the former, and assets and liabilities in the latter.

BOOKS USED IN BOOK-KEEPING

The books utilized for the purpose of book-keeping fall naturally into two divisions—

1. **Financial Books or Books of Account.** These comprise all the books that are an integral part of the system of book-keeping. They are subdivided into two classes—

(*a*) **Principal Books,** namely, Ledger and Cash Book.

(*b*) **Subsidiary Books,** or books of prime or original entry; such as Purchases Book, Sales Book, Journal, etc.

2. **Statistical or Memorandum Books.** These are books in which are entered the numerous details connected with the business operations; details that cannot conveniently be recorded in the financial books. Examples of these are the Policy Registers of an insurance company, the Cost Books and Stock Books, etc., of a manufacturing firm.

NOTE. The subsidiary books were originally designed as aids or helps (Latin, *subsidium* = help, aid) to the Journal proper, and the totals of the subsidiary books were regularly entered in the Journal. They are now aids or helps to the construction of the Ledger, and are no longer auxiliaries of the Journal in its present modified use.

QUESTIONS

1. Define "Book-keeping." What are its objects?

2. What is Capital? What is a Deficiency? Explain the terms "trading," "fixed," "floating," "circulating," "positive," "negative," "loan," and "working" capital.

3. What is meant by "Assets"? Explain the following terms in reference thereto: "fixed," "floating," "liquid," "wasting," "fictitious." Give examples showing that "fixed" assets may sometimes be "floating," and vice versa.

4. What is meant by an "Account"? What two main divisions of accounts are there, and how are they subdivided? Explain what is meant by "real" and "nominal" accounts, and give examples of them. Show by means of examples how some impersonal accounts may be personal in meaning, and also how some accounts may be both real and nominal.

5. How many systems of book-keeping and accounting are there? Give a short explanation of each.

6. Explain briefly the theory of "double entry," and of "debit and credit."

7. What are the principal advantages of "double entry"?

8. Explain the signification of the debit and credit balances in a Ledger. Why is their proper classification of great importance?

9. What are the books used in book-keeping? Give a short explanation of each class. Explain the meaning and application of the term "subsidiary."

JOURNAL

Definition. The Journal, or "daily record" as originally used, was a book of prime entry in which transactions were copied, in order of date, from a Memorandum or Waste Book. The entries, as they were copied, were classified into debits and credits so as to facilitate their being correctly posted afterwards in the Ledger.

Journal Superseded by Subsidiary Books. The method of entering every transaction into the Journal was soon found to be cumbersome and tedious, and also to lack facilities for ready reference. First, the cash transactions were omitted and dealt with in another book; then the credit purchases and sales were entered in a separate book; finally, the use of the Journal in its original form became obsolete, and the book itself was superseded by the subsidiary books or books of prime entry. The use of separate books for cash, purchases, and sales, besides being a great time saver, also provides greater facilities for reference. Strictly speaking, however, these books are but modified forms of the Journal proper, though the Cash book may be said to be partly a Journal and partly a Ledger.

Present-day Use of the Journal. In modern counting-houses, the Journal, if in use at all, is kept for the purpose of recording opening and closing entries, transfers, the writing off of bad debts and depreciation, the debiting and crediting of interest, the correction of errors—in short, for such entries as cannot conveniently be made in any of the other books of original entry, or which are not sufficiently numerous to necessitate a special book being devised for them. As, however, all these entries can be made direct from one Ledger account to another, it is quite possible for a set of books to be kept without using a Journal at all.

Such a practice cannot, however, be recommended. Transfers should certainly be recorded in the Journal before being made in the Ledger, so as to obviate the danger of one-sided entries, i.e. the entering of a Debit or Credit without the contra entry; for instance, crediting a personal account *By Bad Debts*, and omitting to make the corresponding debit in the Bad Debts Account itself. Such entries, of course, prevent the periodical agreement of the books. Further, the cause of discrepancy between the debit and credit totals of the Trial Balance is, in such cases, very difficult to trace, as calling-over, re-casting, re-balancing, all fail to find it. It often involves the examination of large numbers of ledger accounts, in order to find any entries not ticked.

Furthermore, it is impossible to keep a set of books on the self-balancing principle, the sole object of which is to localize errors, unless *every* entry passes first through a subsidiary book. It is a wise precaution, therefore, to insist upon all transfers being made through the medium of the Journal.

Narration. The modern use of the **Journal** requires an explanation at the foot of each entry, in technical language a "narration." Whether a Journal entry involving more than one debit and more than one credit should be preceded by the phrase *Sundries to Sundries* is a matter on which there is a difference of opinion; but a narration is always necessary unless the item speaks for itself—thus "Bad Debts *Dr.* to A" is obviously the writing off of a debt irrecoverable from A. On the other hand, if we have "A *Dr.* to B," the reason for the entry is not clear without a narration such as "Error in posting 20th Jan." For examination purposes, a narration is essential.

PURCHASES BOOK

Nature and Use. This is one of the subsidiary books, or books of original entry in which are entered all goods bought *on credit.* In addition to being called the "Bought Book," "Bought Day Book," or "Purchases Day Book," which terms are self-explanatory, it is also termed the "Invoice Book," owing no doubt to the fact that the purchases invoices are copied into it, sometimes in detail, sometimes in total. *Cash* purchases are best dealt with in the Cash Book alone, though the practice of entering them in the Bought Book as well, in order to post the purchases in one total to the Purchases Account, still obtains. The rulings vary from the ordinary two columns for details and total respectively to the several columns in use in those businesses where, owing to the complexity of the transactions, analysis becomes imperative if the system of book-keeping is to furnish really satisfactory information.

Trade Discounts. These are abatements or allowances from the catalogue price of goods. They should be deducted from the invoices which will be entered *net* in the Purchases Book and so posted into the Ledger.

Common Errors in the Purchases Book. In writing up the ordinary two-column Purchases Book, care must be taken to see that no purchases are entered in it except those that are for *re-sale.* If purchases of machinery, fixtures, stationery, coal, etc., are so entered, the Purchases Book must be analysed and summarized at the end of the month in order that all such items may be posted to appropriate asset and expense accounts. These commodities are for own use or consumption, and if posted to the Purchases Account would cause the gross profit to come out at less than the actual amount.

Trade Purchases Book. There is a marked tendency in many businesses to keep the Purchases Book for trade transactions only, i.e. for purchases of goods for re-sale; and, in such cases, the Bought Ledger is often called the "Trade Ledger." Invoices for

assets and expenses are filed as and when received, and, when paid for at time of purchase, the personal side is ignored by posting the payment in the Cash Book direct to the asset or expense account involved. Thus, suppose on the 15th of the month we bought some stationery from Messrs. Brown & Co. When the invoice was received it would simply be filed, and at the end of the month when the account was paid, the entry in the Cash Book would be *By Stationery (Brown & Co.)*; which would be posted direct to the Stationery Account. This saves a considerable amount of entering up in the Bought Book, and is, perhaps, quite satisfactory in those businesses where the items are few and it is the custom to pay all such accounts at the end of the month.

SALES BOOK

Nature and Use. This is another of the books of original entry. In it are recorded all goods sold *on credit*, i.e. not paid for at the time of sale. The book is known by various names: "Day Book," "Sold Day Book," and "Sales Day Book." The ruling may be the ordinary two columns or it may be the tabular form—which is a matter dictated by the requirements of the business. *Cash* Sales should not be included in this book, but should be entered in the Cash Book only. If, however, a regular credit customer happens to pay cash down for some particular goods in order to reap the benefit of a cash discount, it is best for such sale to be passed through the Sales Book in the usual way, so that the customer's account may be a full record instead of a partial one. But where a customer has *not* a Ledger account with the firm, such a course is, as a general rule, wholly unnecessary. It duplicates the work without offering any compensating advantage.

Odd and Even Day Books. In some businesses where bound books are used, the custom exists of keeping *odd* and *even* Day Books; that is to say, all transactions on even dates, such as 2nd, 4th, 6th, etc., will be entered in one book; and all transactions on odd dates, such as 1st, 3rd, 5th, etc., will be entered in another book. This is done in order to prevent loss of time through one clerk having to wait for a book that another clerk is using. It also ensures the clerical work being up to date, for the ledger clerk can be using one Day Book to post up the previous day's transactions, while the invoice clerk is using the other Day Book to write the current day's transactions.

Trade Discounts. As with the Purchases Book, so also with the Sales Book, these allowances off the selling price should be deducted

on the invoice, and only the *net* sale carried out and posted into the Ledger.

Sales Journal. This is a form of Sales Book adopted in those businesses where press-copy or carbon-copy Invoice Books are in use. No details are entered in it, but merely the date, name, and total of each transaction, columns being provided for the purpose of analysis. Reference is made to the detail by quoting the number of the invoice or the folio or page of the press copy book. The following is an example—

SALES JOURNAL

Date	No. of Invoice[1]	Name	Led. Fol.	Total	Mantles	Dress Materials	Felts

[1] Or press copy book folio.

PURCHASES RETURNS BOOK

Nature and Use. This book, called also "Returns Outwards Book," is a book of original entry in which are recorded all returns of goods *bought*. The reason for return may be that the goods are of the wrong kind, or not up to sample, or because they are damaged. The ruling of the book will naturally be identical with the ruling of the Purchases Book. Allowances claimed for breakages, short weight, overcharge, etc., are usually dealt with in the same book. Quite frequently this will be found at the back of the Purchases Day Book.

Debit Note Book. A specially printed Memorandum Book is generally utilized. Debit Notes with full particulars are sent to the parties concerned, the counterfoils providing the material for writing up the Returns Book.

Posting to Ledger. Each person to whom goods have been returned, or from whom an allowance has been claimed, is debited in the Bought Ledger, and, at the end of the month, the total is credited to the "Purchases Returns and Allowances Account" in the General or Impersonal Ledger. Some accountants, however, prefer to open a separate "Allowances Account" for such items as are not actual returns, i.e. abatement in price, claims for broken or damaged articles, etc. The Allowances Account is finally closed to Trading Account through the Purchases Account.

SALES RETURNS BOOK

Nature and Use. This book, termed also "Returns Inwards Book," is a subsidiary book used for the purpose of recording all returns of goods *sold*. The circumstances necessitating the return of the goods may be that they are of the wrong description, or of inferior quality, or damaged. The ruling of the book will, of course, correspond with that of the Sales Book. Allowances claimed in respect of short delivery, breakage, overcharge, etc., are usually included in the same book. The back of its corresponding Day Book is sometimes used for such returns, etc.

Credit Note Book. A specially printed counterfoil Memorandum Book is in common use. Credit Notes, printed in red ink, with full details, are sent to the customers concerned, the counterfoils supplying the necessary particulars for writing up the Returns Book. Since, however, these items arise from claims by customers, another method is to *file the claims* and enter up the Returns Book from the file. This ensures that all credits are *bona fide* claims and obviates the possibility of an amount being collected and embezzled and then entered as "Returns."

Posting to Ledger. Each person who has returned goods is credited in the Sales Ledger, and, at the end of the month, the total is debited to the "Sales Returns and Allowances Account" in the General or Impersonal Ledger. For items of allowances other than actual returns, a separate "Allowances Account" is sometimes kept in addition to a Returns Account, and closed at balancing time to the Trading Account through the Sales Account.

QUESTIONS

1. Define the term "Journal." Explain why the Journal has been gradually superseded by other "books of original entry."
2. Explain the present-day use of the Journal. Why is it important that transfers should always be made by means of Journal entries? What is meant by "narration"?
3. Explain the nature and use of the Purchases Book. What other names has it? How should *Cash* purchases be treated?
4. What are "trade" discounts, and how should they be treated in books? Give examples of some common errors in the Purchases Book.
5. What is meant by a "Guard Book," and a "Trade Purchases Book"?
6. Explain the nature and use of the Sales Book. What other names has it? How should *Cash* sales be dealt with? Are there any exceptions to the general rule?
7. Explain the practice of keeping "odd" and "even" Day Books, and its advantages.
8. Explain, with facsimile ruling, the nature and use of a "Sales Journal."
9. Explain the nature and use of a Purchases Returns Book. What other name has it? What is a Debit Note Book?
10. Explain the nature and use of a Sales Returns Book. What other name has it? What is a Credit Note Book?

CASH BOOK

Nature and Use. This is a book of original entry, the object of which is to record all receipts and payments of money. It is wrongly classed as a subsidiary book, for it is really part of the principal book, i.e. the Ledger, being nothing more or less than the Cash and Bank Accounts taken out of the Ledger and bound separately for the sake of greater convenience. This is at once apparent when we remember that the Cash and Bank balances, like all other Ledger balances, must be entered in the Trial Balance and Balance Sheet before either of the latter can be agreed.

Headings of Cash Book. The ornamental headings *Cash* and *Contra* are still sometimes found, though they serve no useful purpose.

Rulings of Cash Books. There are different rulings of Cash Books in vogue: With the ordinary Cash Books the number of columns varies from one (for Cash or Bank) to three (for Discount, Cash, and Bank respectively). With tabular Cash Books the number of columns may be numerous, according to the nature of business or the requirements of the counting-house. (See page 12 under "Bank Cash Book" for a more modern method of recording cash.)

Contra Entries. In the ordinary three-column Cash Book there will be, in addition to the usual receipts and payments of money, *cross* or *contra* entries, i.e. transfers of money from Cash to Bank, and contra transfers from Bank to Cash. A surplus of Cash is paid into Bank, and a shortage of Cash is made good by withdrawals from Bank. In all such cases an adjusting entry is, therefore, required in the Cash Book. These *contra* items do not require to be posted as they offset each other. This is indicated by a contra sign —ȼ—in the folio columns.

Cash Discounts. These are deductions made from accounts receivable and payable at the time of settlement. They are entered in a special column of the Cash Book, and their totals are respectively posted to a "Discounts Allowed" and a "Discounts Received" account in the Ledger, so that the exact gain or lōss by discount may easily be ascertained.

Treatment of Cheques. In some businesses all cheques received are entered in the Cash column; in others they are entered direct into the Bank column. Again, in some businesses, cheques received from customers are endorsed on to creditors. Such cheques must, both when received and also when paid away, be entered in the Cash columns. This practice is, however, very unsatisfactory—all cheques should preferably be cleared through a bank the same day as received.

Cash Sales. Where the Cash Sales, or "till takings," as they are often called, are not very large or numerous, the total is generally

entered at the end of the month in the General Cash Book, and posted to the Sales Account in the General Ledger. But where the transactions are both large and numerous, a separate Cash Sales column is provided for the daily or weekly amount, and the monthly total of this column is posted to the Sales Account.

Bills Receivable and Payable. Where Bills Receivable and Bills Payable are very numerous it is not unusual to find separate columns provided in the Cash Book to accommodate such receipts and payments. Only the monthly totals of such columns are posted to the General Ledger accounts for bills, thus saving the labour of posting a considerable amount of detail. The detail posting, however, possesses the advantage of showing at a glance which bills are outstanding, although the Bill Book, if kept marked up, will show this.

Posting to Ledger. All items in the Cash Book (excepting balances and contra entries) are posted into the Ledger. The receipts on the debit side of the Cash Book are posted to the *credit* of the Ledger accounts affected, "*By Cash,*" and "*By Discount*" (if any); and the payments on the credit side of the Cash Book are posted to the *debit* of the Ledger accounts concerned, "*To Cash,*" and "*To Discount*" (if any); or, the Cash and Discount are frequently added together and posted as "Cash, etc." It depends largely upon whether the advantage of having the two items in the Ledger compensates for the time occupied in making two entries instead of one in each case. The discount total on the Dr. side of the Cash Book is posted to the Dr. of Discount Account in the Ledger, as the items have been posted individually to the credit of the personal accounts. The reverse applies to those on the Cr. side, i.e. the total discount on the Credit side is posted to the credit of the Discount Account, the items having been posted individually to the debit of the personal accounts. Very often the discount totals on each side are posted to separate accounts, as previously mentioned when dealing with Cash Discounts.

Balancing the Cash Book. To avoid the trouble, as well as the possibility of error, of continually carrying forward large amounts on each side, the Cash Book is balanced at least once a month, and the balances are carried down to the new period.

Bank Cash Book. A modern development of the three-column Cash Book (Discount, Details, Bank), known as the "Bank Cash Book" is much in use at the present day. All money received is paid into the Bank intact, and all payments except Petty Cash payments are made by cheque. The debit side of the Cash Book is written up from printed and numbered carbon copy receipts, and the credit side from the counterfoils of the cheques paid away. No cross entries are necessary; when money is paid into the Bank the amount is simply extended into the Bank column; and when

money is drawn for Petty Cash, the amount is credited out of this Cash Book and posted to the debit side of a separate Petty Cash Book.

Cash Systems. The forms of Cash Books outlined, whilst in very general use, do not represent the last word in system as applied to the control of cash under modern conditions of commerce. The student must not imagine that there is a one and only Cash Book in use (though ruled with two or more columns) in the counting-house. As the Journal has been superseded by a number of subsidiary books which contain transactions peculiar to them, so also has the Cash Book proper been adapted to meet modern requirements. The first change is wherein the Cash Book is composed of two books, namely, "Cash Received" and "Cash Paid," necessitating the use of a third or Private Cash Book in which to show the balance. These books are again subject to division as determined by the circumstances of the business. The counting-house may have "Received" and "Paid" Cash Books corresponding to Debtors and Creditors for different localities, etc. Again, a "Cash Paid" Book may be had for control over "real" expenditure, and a further one for expenditure on "fixed" charges. Whenever transactions in cash in any particular direction assume sufficient importance as to their nature and extent, then special provision for their control in the cash system will be effected. A cash system develops side by side with a business, and only a thorough knowledge of practical conditions can indicate the best system of control of cash. Cash systems are applied in a very thorough and efficient manner by public utility companies, such as Gas companies, Water companies, and Railway companies, etc. Insurance companies have an elaborate system of control over cash, and an idea of the system is appended.

Reverting to the "Cash Book," it remains to be said that its function under a cash system is that of a summary—or "total" cash account—and contains only the final figures taken from the subsidiary cash books.

The cash system of a life assurance office provides the following Cash Books and registers for control over money received and paid through its offices and agencies.

A General Cash Book, for daily totals, with two subsidiary cash books, namely, "Cash Received" and "Cash Paid."

1. The *Cash Received Book* is provided with the following columns—

(*a*) Premiums. (*b*) Interest. (*c*) Dividends on loans and investments. (*d*) Loans repaid. (*e*) Branch and agency remittances. (*f*) Consideration for annuities.	The amounts entered in the respective columns are, in turn, supplied from "subsidiary" cash books. Examples of these are— 1. H.O. Premium Cash Book. 2. Agency Remittances Cash Book. 3. Loans Cash Book, etc.

2. The *Cash Paid Book* is provided with the following columns—

(*a*) Claims. (*b*) Annuities. (*c*) Bonuses. (*d*) Surrenders. (*e*) Loans. (*f*) Investments. (*g*) Reassurances. (*h*) Management expenses, etc. (*i*) Sundry Expenses.	The amounts entered in the respective columns are, in turn, supplied from "subsidiary" cash books. Examples of these are— 1. "Claims" Cash Books (Ordinary and Industrial). 2. Loans on Policies Cash Book. 3. Annuities Cash Book. 4. Surrenders. 5. Petty Cash Book, etc.

Although special Cash Books may not be provided for all classes of receipts and payments, there would be adequate means of control by records in appropriate books, registers, etc.

Reconciliation Statement. This is a statement drawn up in order to agree the Bank balance *as shown by the Bank Pass Book*, with the Bank balance *as shown by the Bank column of the Cash Book*. The statement is generally copied into the Cash Book at the end of the month as a permanent record. The two balances seldom agree. Cheques paid away to creditors are entered in the Cash Book as at the date they are drawn, but they will not be shown in the Pass Book until the creditors have cleared them. Again, cheques paid into the Bank do not always appear in the Pass Book on the same date; the pass books are usually made up the day following. On checking the Pass Book with the Cash Book at the end of the month there will be several items not ticked in the Cash Book, simply because they are not included in the Pass Book. These items furnish the material for the adjusting entries as shown in the *pro forma* example below.

RECONCILIATION STATEMENT

	£ s. d.	£ s. d.
Bank Balance as per Pass Book . . .		550 10 6
Add Cheques, etc., paid in, not credited .	67 13 2	67 13 2
		618 3 8
Deduct Cheques paid away, not yet presented—		
Smith & Son	16 2 9	
Jones & Co.	23 4 7	
Brown & Roberts	10 15 2	50 2 6
Bank Balance as per Cash Book . . .		£568 1 2

Where the balances are overdrafts the position is of course reversed, cheques paid in but not credited being *deducted* and those

not presented for payment being *added.* Insufficient attention is often given to the preparation of these statements and students are advised to work a variety of examples. Items such as Bank Charges frequently appear in the Pass Book and in practice are immediately entered in the Cash Book and a new balance struck before the Reconciliation is attempted. For examination purposes this cannot be done and the effect of such items must be allowed for in the agreement by cancelling their effect on the Pass Book balance.

An example covering this point and showing a reconciliation between an *overdraft* in the Pass Book and a *debit balance* in the Cash Book is set out below.

RECONCILIATION STATEMENT

	£ s. d.	£ s. d.
Balance being overdraft as per Pass Book		249 8 8
Less Cheques paid in not credited		194 14 10
		54 13 10
Add Cheques not presented—		
E. J. Read	16 16 –	
R. Edwards	50 – –	66 16 –
		121 9 10
Less Bill Payable met not entered in Cash Book	188 16 3	
Payment under Banker's Order not entered in Cash Book	25 19 9	214 16 –
Balance as per Cash Book		£93 6 2

PETTY CASH BOOK

Nature and Use. This is a book of original entry devised for the purpose of relieving the General Cash Book of much cumbersome detail. It is used for recording the numerous petty disbursements incidental to modern businesses. There are various methods of keeping the Petty Cash, the money for which is advanced in round sums as and when required. In small businesses a Memorandum Cash Book is kept, and at the end of the month the total expenditure is credited in the General Cash Book and charged to the Trade Expenses Account; in other cases the expenditure is analysed under appropriate headings, and the analysis is copied into the General Cash Book for posting to the corresponding Ledger accounts. A Petty Cash Account is often raised in the Ledger, and the monthly summary journalized and posted to the debit of the accounts concerned and to the credit of the Petty Cash Account.

Imprest System. The best method of keeping the Petty Cash is what is known as the "Imprest System," by means of which a certain sum of money is definitely "retained" or "held" for Petty Cash expenditure. At the end of the month a cheque is drawn for the exact sum spent, so that the imprest amount is always in hand at the commencement of each month. The expenditure is recorded in a tabular Petty Cash Book, which is utilized as a posting medium. By this method the expenditure is analysed daily as it occurs, thus saving the trouble of monthly analysis; while the posting of the columnar totals direct from the Petty Cash Book to the expense accounts in the General Ledger, instead of through the medium of the Journal, is a great saving of labour, and also minimizes the risk of error inasmuch as copying into the Journal is dispensed with. An example of this is set out in Chapter IX.

BILL BOOKS

Nature and Use. These are two subsidiary books, called Bills Receivable Book and Bills Payable Book respectively, used for the purpose of recording all bills drawn, received, and accepted by the firm, and the necessary particulars connected with them, such as drawer, drawee, payee, tenor, where payable, due date, how dealt with, etc.

LEDGER

Nature and Use. We come now to what is called the *principal* book, namely, the Ledger. As has been previously stated, a part of the Ledger, called the Cash Book, is bound as a separate book for the sake of convenience. The *whole* of a trader's transactions are entered from the subsidiary books into the Ledger, but in a summarized and classified form, e.g. all Smith's transactions in Smith's Account, all Sales transactions in Sales Account, but in total instead of in detail, and so on.

Rulings of Ledgers. Many different rulings are met with in business. The most usual have columns for date, particulars of transactions, folio, and amount. Double money columns are in use where the business has foreign customers, one column being kept for currency and the other for sterling. Double and sometimes treble money columns are also provided in order that accounts may be ruled off as and when paid.

Index. In order to facilitate reference to the accounts contained in it, each Ledger is furnished with an alphabetical index, which is either at the commencement of the Ledger or bound as a separate book. **Card Indexes** are in vogue in many businesses. The index cards are kept in a tray, a separate card being used for each customer's name. They have many advantages; new names may be

added without throwing the others out of order; they also effect a great saving of labour, as the necessity for re-writing an index does not arise. If they are of the visible type there are the added advantages that they can be referred to much more rapidly and do not have to be removed for posting.

Subdivisions of the Ledger. The usual subdivisions of the Ledger are as follows—

Purchases or Bought Ledger (sometimes termed "Creditors Ledger"), which contains the *creditors'* accounts.

Sales or Sold Ledger (sometimes termed "Debtors Ledger"), which contains the *debtors'* accounts.

Impersonal or General Ledger, which contains the *real* and *nominal* accounts. The term **Nominal Ledger** is sometimes applied to this Ledger; but this is inaccurate, since such a designation should, strictly speaking, embrace only those accounts that relate to gains and losses.

Private Ledger, which contains the *Capital Account* and *Drawings Account* of the proprietor or of each of the partners. It also contains the Trading and Profit and Loss Account and Balance Sheet for each half year or year.

Other Divisions of Ledgers. In addition to the above, we find other subdivisions such as Bills Receivable and Bills Payable Ledgers, Agents' Ledgers, Branch Ledgers, Consignment Ledgers, Investment Ledgers, etc., each firm adapting the division to meet its own particular requirements.

Sectional Division of Ledgers. In some businesses the Bought Ledgers and Sales Ledgers are divided into sections (*a*) *alphabetically* as A–G, H–L, M–R, S–Z; (*b*) *departmentally* as A Dept., B Dept., or Hosiery Dept., Drapery Dept.; or (*c*) *geographically* as Town, Country, Foreign.

Balancing of Ledgers. No hard and fast rule can be laid down for balancing and ruling off Ledger accounts. In some businesses it is done monthly, in others quarterly. Again, in some businesses accounts are also ruled off as and when paid; in others, only at the close of each half-yearly or yearly trading period, it being desired to see the turnover of each customer. Probably the balance of convenience is to rule off an account whenever a payment is made, so that the *composition* of the balance remaining may be seen at a glance.

QUESTIONS

1. What are "cash" discounts, and how should they be treated in the books? What variations are there in practice with regard to the treatment of cheques?

2. How should Cash Sales be treated in the Cash Book? Why are columns for Bills sometimes found in the Cash Book?

3. How is the Cash Book posted to the Ledger as regards (*a*) receipts, (*b*) payments, (*c*) discounts? When is the Cash Book balanced, and why?

4. Explain briefly the nature and use of a "Bank Cash Book." Submit example and make six specimen entries therein.

5. What is a Reconciliation Statement or Account? Submit *pro forma* example of one.

6. Explain briefly the nature and use of a Petty Cash Book, and its connexion with the Cash Book, Journal, and Ledger.

7. What is meant by the Imprest System of keeping the Petty Cash? Give a short account of its operation and advantages. Submit ruling of such a Petty Cash Book, and enter therein six specimen transactions.

8. Explain the nature and use of Bill Books. Submit rulings and make three specimen entries in each book.

9. What is a Ledger? Explain its form and use.

10. What is the object of double money columns in some Ledgers? What is an Index? Explain the use and advantages of Card Indexes.

11. What is a Cash Book? Explain its use. Is the Cash Book a "principal" or a "subsidiary" book? Give reasons for your answer.

12. Explain the terms "Cash," "Contra," "Dr," and "Cr" in a Cash Book. What are "cross" or "contra" entries?

LOOSE-LEAF AND CARD LEDGERS

Nature and Use. Loose-leaf Ledgers consist of sheets ruled like the pages of an ordinary bound Ledger, such sheets being inserted or abstracted from an expanding binder as and when required. A certain number of sheets are printed and numbered; and a register is kept which shows when and to whom they were issued. The sheets are arranged alphabetically, A1, A2, A3, etc., B1, B2, B3, etc., C1, C2, C3, etc., and the number given to a customer when an account is opened for him always appears on all sheets relating to this particular customer. Thus, suppose James Smith is the twenty-third customer whose name begins with S; then S23 will always appear on the Ledger sheets of James Smith's Account, and as further sheets are added they will be numbered S23/1, S23/2, S23/3, etc. The Ledger sheets are kept in two distinct binders or holders, one for *live* or *current* accounts, and the other for *dead* or *closed* accounts. If the transaction is a chance one, the customer's account, when paid, is transferred to the closed section; if it is followed later on by further transactions, the account is retransferred to the current section. **Card Ledgers** are on exactly the same principle, the cards, however, being kept in special trays or drawers. The loose-leaf binders and the card trays or drawers are generally fitted with patent locking devices, the keys of which can be retained by someone in authority. Though very suitable for the personal accounts of debtors and creditors, they can also be used to advantage for statistical records, such as cost accounts, register of members of a joint stock company, etc.

Advantages. The advantages claimed for Loose Leaf and Card Ledgers are as follows—

1. The current Ledger is not cumbered with dead or closed accounts, as the latter are taken out and filed separately; neither does it contain a number of blank pages.
2. There is no need for an index, the cards and leaves being arranged alphabetically.
3. The labour of making new indexes and of opening entirely new Ledgers is dispensed with.
4. The Ledgers are continuous or "perpetual." Extra leaves or cards are added for each new account.
5. The work of posting, rendering statements, or taking out balances can be performed much more quickly, as sheets can be allotted to a number of clerks simultaneously.
6. An account is continuous, not scattered over many pages of the Ledger and frequently necessitating much backward and forward reference when the account is one of any extent.
7. When accounts are the subject of litigation, to produce a few loose leaves or cards instead of a bound book or books would obviously be to the advantage of the court and the litigant, and also to the counting-house, as it would not bring the clerical work to a standstill owing to the books being away.

Disadvantages. The principal disadvantages of Loose Leaf and Card Ledgers are—

1. The cards or leaves may be accidentally or wilfully lost or destroyed.
2. Fresh cards or leaves may be fraudulently substituted for others, in order to commit or conceal fraud.
3. The uncertainty as to whether such Ledgers would be recognized if put in as evidence in a court of law.

Loose Leaf *v.* Card Ledgers. The advantages claimed for the Loose Leaf over the Card System are—

1. The form of the Ledger is maintained with any consequent benefits.
2. The Ledger sheets are not so likely to get displaced or lost, as they are larger than the cards.
3. It is just as suitable for large as for small accounts. A better idea of an account can be obtained by glancing over a few sheets than by looking at numerous cards.
4. The utility of Card Ledgers is restricted to the ordinary debtor and creditor rulings. Elaborate rulings are not possible on small-sized cards.

On behalf of the Card System it is contended that cards are more easily handled, and that there is little risk of cards being displaced or lost.

SLIP SYSTEM OF BOOK-KEEPING

Nature and Use. Mention must here be made of what is known as the "slip" system of book-keeping. It is really a reintroduction of the earliest methods of "book-keeping without books," or "accounting," as it should be more properly called in such cases; that is, a recording on loose sheets of paper, of transactions usually entered in subsidiary books. In its widest sense the term includes also loose leaf and card Ledgers.

Under the ordinary system of book-keeping, transactions are recorded in books of original entry, and these transactions have to be copied into the Ledger. The copying process has to be continued into other books according to the complexity of the transactions and the requirements of the business itself. The object of the slip system is to do away with this constant re-copying, by making the original record serve all the purposes of book-keeping. Thus, a carbon copy of an invoice may serve the purpose of both Day Book and Ledger Account. The counterfoils of receipts and cheques may be posted direct to the Ledger Accounts affected, thus avoiding the copying into the Cash Book, and the subsequent copying from there into the Ledger. Naturally, there are many variations of detail in practice, a constant compromise, so to speak, between principle and convenience. The slip system has been adopted by banks for many years, the numerous customers' accounts being regularly posted up from original "dockets," such as paying-in slips, cheques, etc.

Advantages. The following advantages are claimed for the slip system of book-keeping—

1. Saving of time and labour, as it reduces the number of subsidiary books.
2. Ledgers can be posted more promptly, as the slips can if necessary be distributed among several ledger clerks simultaneously.
3. The minimizing of the risk of error, as much copying into intermediate books is dispensed with.
4. Ready reference from the Ledger direct to the original slips.

Slip Day Book. A large book is generally used with at least three or four printed and numbered invoice forms on a page. Carbon copies are obtained each time an invoice is made out. Postings are made from the carbon facsimiles (which are also detachable), *direct* to the personal accounts in the Ledger. References are made in the Ledger to the number of the posting slips, which are then carefully filed alphabetically, and in order of date. If subsequent reference is likely to be frequent, the detail itself is often copied into the Ledger so as to avoid the constant turning up of slips. The amount of each invoice is extended into money columns provided on the counterfoils, or entered on a summary sheet against

its corresponding number, or into a specially ruled dissection book if dissection is necessary; and the totals of the counterfoils, summary sheet, or dissection book are posted periodically to the Sales Account. In some cases, however, the amount of each slip is posted direct to the Sales Account.

A simple form of such day book is in use in most retail shops. Carbon copy "bills" or invoices are made out for each sale, one copy being given to the customer and the other handed in at the cash desk. Each form is numbered, and the amount of each sale is registered on a summary sheet at the back of the book, so that the total sales may be ascertained daily or periodically. Where dissection is imperative, the carbon duplicates are usually on different coloured papers, according to the departments making the sales; and dissection is easily carried out, by simply sorting the slips into their different colours and then totalling them. Under this system, one of the commonest errors is guarded against, namely, the sending out of an invoice without any record of the sale being made in the Day Book. It is not necessary that the invoices be written by hand; they can be typewritten, if desired. The principal objections to the ordinary bound Day Book are the length of time taken to compile it, lack of facilities for dissection, and the uncertainty as to whether the entries made therein correspond exactly with the invoices sent out to the customers.

Slip Cash Book. For the General Cash Book it will no doubt be found desirable to retain the ordinary bound form of book. But where numerous subsidiary Cash Books are in use, a great saving of labour may be effected by the adoption of the slip system. An ordinary sized Cash Received Book is employed, having three or four printed and numbered carbon copy receipt forms on a page, which are provided with numbered counterfoils ruled with money columns. The carbon duplicates are detached and handed to the ledger clerks concerned for posting to the various personal accounts, after which they are filed alphabetically and in order of date. The totals of the counterfoils serve as a check on the debit side of the General Cash Book, and also for the purpose of compiling adjustment accounts for "Self-balancing Ledgers." The practice of using carbon receipts obviates the risk of money being received and acknowledged without any record being made of it. It is not, however, an infallible safeguard against embezzlement, as the receipts may be fraudulently altered; but it is a sufficient safeguard, inasmuch as alteration or erasure can be more or less easily detected.

As regards a Cash Paid Book, the same system could be employed, i.e. each page would contain three or four cheque forms provided with detachable duplicates, and with counterfoils ruled with money columns. The duplicates would be used for the purpose of posting to the Bought Ledger and Impersonal Ledger accounts, while the

counterfoils when totalled would act as a check on the credit side of the "General Cash Book." But there is hardly the same necessity as with money received, because the payments are much less numerous and more subject to supervision. It is, therefore, desirable to retain the old method of writing up the General Cash Book from the particulars on the cheque counterfoils, and to post the Ledger accounts concerned direct from this book.

Slip Ledger. Where it is desired to make the original slip serve all the purposes of book-keeping, the sale slips are not filed away in order of date, but are sorted into alphabetical order and placed in separate files or drawers. The personal account of each customer, therefore, consists of loose slips. When transactions are settled, the slips are removed to another set of files or drawers. This system is only suitable for businesses where the number of customers is very numerous, but the transactions with each only few in number, e.g. where the customers are chance and not regular ones. It may also be used for businesses where the accounts are nominally on a cash basis, but where it is sometimes necessary to give regular customers seven to ten days' credit. The advantages of this method are that it is absolutely direct, there being no intermediate entry between the original slip and the Ledger; also it obviates the risk of error arising from copying.

TRIAL BALANCE

Definition. A Trial Balance is a schedule or list of balances, both debit and credit, extracted from the accounts in the Ledger, and including the Cash and Bank balances from the Cash Book.

Object of the Trial Balance. Under double entry, the total debits in the Ledger must be equal to the total credits, and the Trial Balance is the recognized method of ascertaining whether this is so or not. The Trial Balance, being an epitome of the Ledger, is also used as material for preparing the Trading and Profit and Loss Account and Balance Sheet.

Ways of Constructing a Trial Balance. A Trial Balance can be constructed in two ways, (1) by means of totals, (2) by means of balances. Taking out the totals on each side of the Ledger Accounts is seldom done nowadays. In theory exercises, when everything has been put through the Journal, the total of the debits and credits must also agree with the total of the Journal entries, thus affording an additional check on the accuracy of the postings. The modern method of preparing the Trial Balance is to take out the balances of accounts, ignoring altogether those accounts in which the amounts on the one side correspond with the amounts on the other side. Some business houses, however, take out the Trial Balance in compound form, i.e. the totals and balances side by side. It has

the advantage of revealing compensating errors, for the total of the debit column of the Trial Balance must then agree with the total of those subsidiary books that are posted to the debit of accounts in the Ledger together with the closing Cash balance but omitting the Cash balance in the opening entries; and the total of the credit column of the Trial Balance must likewise agree with the total of those subsidiary books that are posted to the credit of accounts in the Ledger. Where, after repeated attempts, the totals of the Trial Balance cannot be made to agree, the difference is, in practice, put temporarily to a special account entitled "Suspense Account," or "Error in Books," to await developments. But in a properly organized concern, nothing short of an exact balance can be considered satisfactory. The adjustment of such errors when found in a subsequent period is dealt with in Chapter III.

Trial Balance not an Absolute Proof. The Trial Balance is a proof only of the *arithmetical* accuracy of the postings; and even so, it is only prima facie evidence of such accuracy. Certain classes of mistakes, as under, are not shown by the Trial Balance prepared in the modern or simple form, i.e. balances only—

1. *Omission of Entries.* If both the debit and credit entries of a transaction have been omitted, the Trial Balance will not be affected, and will not, therefore, reveal the error.

2. *Compensating Errors.* If one account has been under- or over-debited or credited with a certain amount, say £20, and another account has been under- or over-debited or credited with the same amount, it will not prevent the agreement of the Trial Balance. Hence, the error will not be revealed.

3. *Misposting of Accounts, or Errors of Commission.* If £100 has been posted to the credit of R. Smith instead of to the credit of F. Smith, or if £50 has been debited to F. Brown instead of F. Rogers, such a mistake does not throw out the Trial Balance.

4. *Errors of Principle.* If an item of revenue expense is debited to an asset account (or vice versa), the error does not affect the agreement of the Trial Balance and, therefore, it is not revealed.

Common Errors in Trial Balances. The reason why the totals of many Trial Balances cannot be agreed at the first attempt is very often due to one or more of the following errors—

1. *Debit* balances in the Ledger having been entered in the *credit* column of the Trial Balance, and vice versa.

2. Balances missed in extracting lists of debtors or creditors.

3. Bad figures.

4. Errors in calculations when "striking" the balances.

5. Allowances, etc., entered in personal accounts without coming from a Returns Book.

6. Reversal of figures—£18 11s. for 18s. 11d., £7 9s. 1d. for £1 9s. 7d.

7. The Purchases Book and Sales Book totals *not* posted to the Purchases and Sales Accounts respectively.

8. The Discount totals in the Cash Book either *not posted* to the Discount Account, or *misposted*, the sides being frequently reversed in error.

9. Cash and Bank balances, as per the Cash Book, *omitted* from the Trial Balance, or entered in the *credit* column instead of the debit, an error caused by the balances on the credit side of the Cash Book not having been brought down to the debit side thereof.

In the examination room particularly, the sight of a Trial Balance which disagrees may be very unnerving. A rather wild search often ensues (probably in the hope of "stumbling" across the error). It is not a difficult task to prepare a plan of action in such an emergency and the following is recommended:

1. Add up both sides again; there may be an error in the addition of the Trial Balance itself.

2. Find the actual difference and divide by two. If this new figure is to be found in the Trial Balance it is almost certainly on the wrong side. The placing of a figure on the wrong side throws the Trial Balance out by double the amount.

3. Check for "transposed" figures.

4. Glance quickly through for obvious errors such as Capital, Goodwill, Stock, and Cash Balance on the wrong side, and see that discounts have not been overlooked.

5. Check the figures again from the Ledger and Cash Book but this time with just that little extra care.

Construction of Trial Balance from List of Balances. Examination questions are sometimes set asking for the preparation of a Trial Balance from a given list of balances. This means that the items have to be sorted into debits and credits, the totals of which must agree. The procedure is not so simple as it looks at first sight, as students find when they actually essay the task. The following rules will be found useful:

1. Assets, Losses, and Expenses are debit balances.

2. Liabilities, Gains, and Profits are credit balances.

Thus, Purchases, Wages, Rent, etc., will be entered in the *Dr.* column of the Trial Balance; and Sales, Discounts Received, Interest Received, etc., will be entered in the *Cr.* column. Again, Stock, Plant and Machinery, Bills Receivable, etc., being assets, will be placed in the *Dr.* column; while Capital, Loans, Bills Payable, etc., being liabilities, will be placed in the *Cr.* column.

In items such as Interest and Discount it should be stated whether they have been received or paid; while the balances of personal accounts must be indicated as either *Dr.* or *Cr.* Sometimes the two sides of the Trial Balance do not agree by a large amount, and if there is no Capital mentioned, the difference should be entered as

such. In some cases, the question paper states that a business is purchased for a certain sum, but the net assets taken over (i.e. total assets less liabilities) amount to a smaller sum than the purchase price. The difference, of course, is goodwill.

QUESTIONS

1. Name the usual subdivisions of the Ledger, and give a short description of each. What mistake is sometimes made with reference to the use of the term "Nominal Ledger"?
2. What other divisions of Ledgers are sometimes met with? Explain the "sectional" divisions of Ledgers. When should Ledgers be balanced?
3. Describe briefly the nature and use of "Loose Leaf" and "Card" Ledgers.
4. Enumerate (*a*) the advantages and disadvantages of Loose Leaf and Card Ledgers as compared with the ordinary Ledgers, (*b*) the relative advantages of Loose Leaf over Card Ledgers, and vice versa.
5. Write a short description of the "Slip System" of book-keeping or accounting. What advantages are claimed for it?
6. Explain briefly the nature and use of (*a*) Slip Day Book, (*b*) Slip Cash Book, (*c*) Slip Ledger.
7. What is a Trial Balance? What is the object of it?
8. In how many ways can a Trial Balance be constructed? Explain each method and the advantages attaching thereto.
9. What errors are not disclosed by the Trial Balance in its modern form?
10. Describe some of the common errors which prevent the agreement of Trial Balances.
11. State the rule for classifying Ledger balances into debits and credits when preparing a Trial Balance from a given list of balances.

EXERCISE I

1. Journalize the following—

(*a*) 15th January. Exchanged 3 Carpets, valued at £4 each, for 2 Office Desks worth £12.

(*b*) Exchanged, on 17th January, Office Safe, valued at £20, for Typewriter worth £25.

2. Enter the following transactions into a suitable Purchases Book, showing discounts in full detail—

			£	*s.*	*d.*
Jan.	1.	Bought of A. Brown, 20 bags of Coffee, less 10 per cent trade discount, net	72	18	–
,,	5.	Purchased from R. Smith & Co., 12 cases of Sugar, less 12½ per cent trade discount, net	42	14	–
,,	9.	Bought of T. Titus, 6 chests of Tea, less 20 per cent trade discount, net	36	12	4
,,	15.	Bought of O. Omicron & Son, 20 bags of Coffee, less 7½ per cent trade discount, net	74	15	5
,,	23.	Purchased of P. Peters, Ltd., 20 cases of Sugar, less 5 per cent trade discount, net	57	19	–
,,	27.	Bought of L. Lucas, 12 bags of Cocoa, less 25 per cent trade discount, net	28	14	6

3. Peter Smith sold on 1st February last to John Swift a parcel of Goods to the value of £580 net; the terms of payment were originally cash in a month, but, subsequently, these terms were altered, Swift arranging to pay £130 in cash on the Goods being delivered, and as to the balance, to accept Smith's draft at

two months for £250, and at four months for £200, Swift also agreeing to pay in cash Discount at 4 per cent, with 1 per cent Commission on the two Bills. This agreement was carried out; the £130 with the Discount and Commission Swift paid, and the two drafts as accepted by him, handed over to Smith.

Make the necessary Journal and Cash Book entries recording this transaction and post to Ledger Accounts. (*London Chamber of Commerce.*)

4. Set out below are extracts from the Cash Book (Bank columns only), and Bank Pass Book of J. Bull. Prepare a "Reconciliation Statement" as on 31st December.

CASH BOOK

19..		£	s.	d.	19..		£	s.	d.
Dec. 1	To Balance	458	2	6	Dec. 2	By Wages	48	–	–
,, 4	,, J. Smith & Co.	51	10	8	,, 4	,, Petty Cash	10	–	–
,, 7	,, Brown Bros.	104	8	6	,, 9	,, Self (Private)	100	0	0
,, 9	,, Geo. White & Son	44	18	4	,, 14	,, J. Tucker	284	2	9
,, 11	,, Buller & Co.	124	2	4	,, 16	,, Wages	51	–	–
,, 29	,, Plumer & Co.	98	–	2	,, 20	,, Cheque Book		4	2
,, 30	,, P. Methuen	208	16	4	,, 30	,, Chermside & Co.	41	–	10
,, 31	,, Cronje & Co.	84	14	9	,, 31	,, Salaries	35	–	–
					,, 31	,, Wages	49	–	–
					,, 31	,, Hunter & Co.	101	4	8
					,, 31	,, Balance c/d	455	1	2
	£	1,174	13	7		£	1,174	13	7
19.. Jan. 1	To Balance b/d	455	1	2					

BANK PASS BOOK

(J. Bull in A/c with the Blankshire Bank)

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Self	50	–	–	Dec. 31	By Balance forward	205	15	5
,, 1	,, Comm. on Scotch Draft (Plumer & Co.)			6	19.. Jan. 1	,, Plumer & Co.	98	–	2
					,, 1	,, Cronje & Co.	84	14	9
,, 2	,, Hunter & Co.	101	4	8	,, 3	,, J. Dundonald	49	14	8
,, 2	,, P. Carew	48	1	–	,, 4	,, P. Methuen	208	16	4
,, 3	,, Comm. on Scotch Draft (J. Dundonald)			3	,, 6	,, J. Smith & Co.	48	13	6
,, 3	,, Unpaid Draft (Cronje & Co.)	84	14	9					
,, 3	,, Chermside & Co.	41	–	10					
,, 7	,, Wages	52	–	–					

(*London Chamber of Commerce.*)

5. From the following figures prepare a draft Bank Reconciliation Statement—

	£	s.	d.
Balance shown in Bank Sheet	1,123	4	7
,, ,, in Cash Book	968	3	2
Cheques paid in but not yet credited	72	–	8
,, outstanding (unpresented)	240	6	2
Bank Charges omitted from Cash Book	20	1	–
,, Interest credited, not in Cash Book	2	6	8
Cheque book omitted from Cash Book		13	4

How would you proceed to locate the error disclosed by the Statement?

(*Chartered Institute of Secretaries.*)

6. Rule a Petty Cash Book suitable for the business of W. Mears, a wholesale grocer. Instead of working on the Imprest system the clerk was paid £100 a week the first being drawn on Monday, 2nd January, and similar cheques on each following Saturday throughout the month. Make specimen entries of not less than four in each week, post to the ledger and carry down the balance of the Petty Cash on 30th January. (*London Chamber of Commerce—adapted.*)

7. Explain the object of a Journal, and give a list of the books in daily use in the Counting House of a City Warehouseman. (*London Chamber of Commerce.*)

8. Enter the following transaction in the subsidiary books you would suppose to be in use in a well-appointed City House—

1st July, Sold to Alfred Bunn, of Beverley, a Bale of Stuff Goods containing 20 pieces, each of 25 yards, at ninepence per yard; Discount 6 per cent Cash at one month prompt—and assume such to have been paid in due course.
(*London Chamber of Commerce.*)

9. Prepare a form of Cash Book and Petty Cash book, and of Purchases and Sales Books, having special regard to strict record, whilst securing economy in clerical labour; and give a series of specimen entries in the two former.
(*London Chamber of Commerce.*)

10. Make the Journal entries necessary to record the following in the books of John Farmer, a wood merchant—

(*a*) Commission at the rate of $2\frac{1}{2}$ per cent on a turnover of £9,342 6s. 6d. due to Mr. Low, one of his travellers.

(*b*) Solicitor's charges of £9 4s. 6d. for the collection of a debt of £87 10s. 8d. due from H. Smith (a customer), the charges having been deducted from the amount of the debt, and the balance paid to Farmer on 30th August, 19...

(*c*) The taking over from a customer (D. Harris) of a second-hand car, valued at £40, in reduction of the amount owing by him.

11. Explain what systems of Book-keeping are used in ordinary practice, and state the differences between such systems, and which system, if any, is to be commended above the rest for its adaptability to all classes of business.
(*London Chamber of Commerce.*)

12. What books are generally used in the Office of a Merchant Trader? State their several and respective uses. Give a ruling of a form of Cash Book that you would recommend. (*London Chamber of Commerce.*)

13. Put the following entries into subsidiary books, and assume that the trader pays all his Cash receipts intact into the Bank, and pays everything (excepting Petty Cash payments) by Cheque. Post to Ledger and draw out Trial Balance.

July 2. Sold Peter Jones 12 pieces Tapestry Carpet, 240 yd., at 1s. 9d., less $2\frac{1}{2}$ per cent Cash in 7 days.
" 2. Cash received, Ready Money Sales, £40 10s.
" 2. Paid William Smith, Cheque No. 40, £54; Discount, 54s.
" 3. Cash received, Ready Money Sales, £39 15s.
" 4. Received John Brown's Cheque, £85; Discount, 90s.
" 4. Cash received, Ready Money Sales, £54
" 5. Gave J. Smith & Co. my Acceptance at 3 months for £147 10s., dated 1st inst., balance of a/c.
" 5. Cash received, Ready Money Sales, £47.
" 5. Received William Dart's Acceptance at 2 months, dated 2nd inst., for £126 4s., balance of his a/c.
" 5. Cash received, Ready Money Sales, £40.

July 7. Bought of Jones, Wallace & Co., 20 bales Fancy, at £25 per bale Cash, less 3 per cent.
,, 7. Cash received, Ready Money Sales, £25 6s.
,, 9. ,, ,, of Peter Jones, £20 9s. 6d.
,, 9. ,, ,, Ready Money Sales, £14 10s.
,, 9. Gave Jones, Wallace & Co. Cheque £485, No. 41; Discount, £15.
,, 10. Sold F. Humble, 20 pieces Fancy, at £35 per piece, Cash, 1st September, less $2\frac{1}{2}$ per cent.
,, 10. Salaries and Wages, Pay Sheet to 9th inst., Cheque No. 42, £12 10s. 6d.
,, 10. Cash received, Ready Money Sales, £25.

(*London Chamber of Commerce.*)

14. Andrew Clark, Warehouseman, Leicester, not being satisfied with the result of his trading, cleared off all his Trade Liabilities at the close of the year; and on the 31st December he had his Stock carefully taken, and a valuation by an expert made of his Real Estate, and then called in Mr. Jones, a chartered accountant, to open up for him a new set of books. His position, at the date named, was as follows: He had with the Leicester Old Bank, to his credit on Current Account, £225; and on Deposit Account, £2,500. He had Stock on hand to the value of £6,000, and his Freehold Warehouse was valued at £1,500. His only Liability was to James Thompson, to whom he owed £4,000.

His rule was to pay all his receipts intact into the Bank, and his outgoings by cheque. He carried on business during the following year, and his transactions may be thus summarized—

	£
Goods bought	12,310
,, sold	15,627
Cash paid for Goods purchased	10,600
,, received for Goods sold	14,250
Goods returned by Customers	248
,, ,, to Manufacturers	340
Cash transferred from Deposit to Current A/c	1,500
,, paid James Thompson on account of Loan	2,500
Discounts allowed to Customers	230
Andrew Clark—Payments to him as against anticipated Profits	500
Cash received for Interest on Deposit	100
,, paid for Interest on Thompson's Loan	225
He also paid in respect of the following—	
Wages and Trade Expenses	750
Salaries	430
Freight and Carriage	285
Repairs	90

Make the necessary subsidiary book entries, giving effect to the above transactions, post same to Ledger Accounts, and draw out Trial Balance.

(*London Chamber of Commerce.*)

15. The summary of the weekly transactions through the Bank of F. Gray was—

	Receipts from Customers			Payment of Accounts			Petty Cash Withdrawn		
	£	s.	d.	£	s.	d.	£	s.	d.
Week ended 7th May, 19..	513	11	4	211	6	–	100	–	–
,, ,, 14th ,, ,,	311	6	–	110	9	–	100	–	–
,, ,, 21st ,, ,,	322	1	8	631	12	–	100	–	–
,, ,, 28th ,, ,,	453	1	–	146	13	–	100	–	–

The Petty Cash payments were—

	£
Salaries	40 per week
Personal Drawings	20 ,, ,,
Travellers' Expenses	15 ,, ,,

And—

	Cash Purchases £ s. d.
Week ended 7th May, 19..	9 11 4
,, ,, 14th ,, ,,	13 3 9
,, ,, 21st ,, ,,	15 11 –
,, ,, 28th ,, ,,	16 13 11

Rule a suitable Petty Cash Book and make the entries therein.

Prepare the Cash Book, the commencing balance at the Bank being £1,150.

Post all the items to the Ledgers and extract a Trial Balance as on 28th May, 19... *(London Chamber of Commerce.)*

16. Outline fully what procedure you would adopt when your Trial Balance does not agree.

17. What check is there as to the accuracy of the balance of the Bills Receivable Account?

18. The following draft Trial Balance was extracted from the books of X and Y as on 30th June, 1948, after the Trading Account had been prepared. In it there are certain errors which you are required to correct and then to prepare Profit and Loss Account for the year ended 30th June, 1948, and a Balance Sheet as at that date, dividing profits in the proportion of 5 to X and 4 to Y. The Bad Debt provision is to be kept at £500.

DRAFT TRIAL BALANCE, 30TH JUNE, 1948

	£	£
X Capital Account		7,600
Y Capital Account		4,000
X Current Account (*Cr.* Balance)		1,650
Y Current Account overdrawn	270	
Stock, 30th June	6,780	
Plant and Machinery	4,050	
Bills Payable		790
Salaries	2,630	
Depreciation: Plant and Machinery	450	
Furniture and Fittings	810	
Rent, Rates, and Taxes	1,250	
Rates paid in advance	40	
Office Expenses: Stationery, etc.	470	
Depreciation: Furniture and Fittings	90	
Bad Debts	220	
Motor Lorries	1,440	
Carriage outwards		310
Discounts allowed		1,430
Discounts received	810	
Depreciation on Motor Lorries	360	
Legal Expenses	230	
Insurances	320	
Insurances paid in advance	30	
Investments	2,500	
Interest thereon		150
Interest on Capital, X	380	
Interest on Capital, Y	200	
Sundry Debtors and Creditors	6,790	3,820
Provision for Bad Debts.		500
Bank Overdraft	1,320	
Cash in Hand	30	
Trading Account (*Cr.* Balance)		10,440
	£31,470	£30,690

(London Chamber of Commerce.)

CHAPTER II

TRADING AND PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

BEFORE a discussion of the subject matter of this chapter is proceeded with, it is advisable to explain a few terms which will constantly be made use of in the following pages.

Profit. This is the surplus that remains after paying expenses and providing for the capital that has been consumed in producing.

Gross Profit. This is the excess of selling price over the buying or cost price of the goods sold and direct expenses in acquiring them such as Carriage Inwards or Importing Costs.

Net Profit. The excess of gross profit over the selling, management, and distribution expenses.

Loss. This means that the expenses paid and capital employed and consumed during a given period have not been replaced by the proceeds, and that there is, therefore, a resulting deficiency or loss.

Gross Loss. Excess of purchase or cost price over selling price.

Net Loss. This is either (1) excess of selling and management expenses over gross profit, or (2) the total of gross loss, selling expenses, and management expenses whenever there is no gross profit.

Turnover. By this term is meant the total *sales* of a trader during a given period. It must be carefully distinguished from **Output,** which denotes the quantity of goods *manufactured* by a factory, or the quantity of material *extracted* from a mine, quarry, etc., during a given time.

Percentages of Gross and Net Profit on Turnover. In some businesses it is usual to ascertain the percentages of gross and net profit on the total sales each year, in order that comparisons of different years may be made, and any increase or decrease duly noted. Such percentages are found by means of the following formulae—

$$(a)\ \frac{\text{Gross Profit} \times 100}{\text{Turnover}}; \quad (b)\ \frac{\text{Net Profit} \times 100}{\text{Turnover}}$$

(Sales) (Sales)

Mathematically, it may be more correct to make the calculation upon the *cost* price instead of the selling price. In business, however, *cost* is often a difficult thing to determine, as so many obscuring items have to be taken into consideration, such as the difference between the initial and final stocks, wages, freight, carriage, coal,

and coke, etc. For the sake of convenience, therefore, the *selling* price is adopted as the common base to which profits are reduced for purposes of comparison.

TRADING ACCOUNT

Definition. This is an account constructed for the purpose of finding the *gross* profit. On the *debit* side are placed the Stock at the commencement of the period to which the account relates, the Purchases, Carriage Inwards, Wages, Rent, etc., of *works* (probably), Coal and Coke, etc. On the *credit* side are placed the Sales and the Closing Stock. The balance between the two sides is the gross profit or gross loss; the excess of the credit side over the debit side called the *gross profit*; if there were an excess of the debit side over the credit side, that would be termed the *gross loss*. This balance is transferred to the Profit and Loss Account.

Difference between a Trading Account and a Profit and Loss Account. The Trading Account deals with the *Purchasing and Manufacturing Expenses*, such as Freight and Carriage Inwards, Remunerative or Productive Wages, Coal and Coke, etc. The Profit and Loss Account deals with the *Selling*, *Establishment*, *and Distribution* Expenses, such as Rent, Rates, and Taxes (office and warehouse), Salaries, Freight and Carriage Outwards, etc.

Difference between a Trading Account and a Cost Account. A Trading Account contains only *part* of the cost expenses; a Cost Account contains the *whole* of them. Some items of cost vary directly with the turnover; for instance, the greater the turnover, the greater the charge for Wages, Coal and Coke, etc. Other items of prime cost do not vary directly with the turnover; such are Repairs and Renewals of Buildings, Repairs to Plant, Depreciation of Machinery, etc. The rule is, therefore, to charge to Trading Account only such items of prime cost as increase or decrease in direct proportion to the turnover (though the Rent of the works is usually so charged). By this means the rate of gross profit on turnover is kept constant, and a comparison of different years affords useful information. In a Cost Account, on the contrary, all prime cost expenditure, whether extraordinary or variable in nature, would have to be included.

Distinction between a Trading Account and a Manufacturing Account. Strictly speaking, a Manufacturing Account deals only with *raw materials* and manufacturing expenses. A Trading Account, properly so-called, deals only with *finished* goods, i.e. goods ready for sale, whether manufactured or purchased. The balance of the Manufacturing Account is transferred to the debit of the Trading Account.

Stock. This denotes the value of unsold goods at the opening

and close of the trading period. Both stocks go into the Trading Account; and, in order to distinguish them, the student should adopt the practice of calling them *Stock at start* and *Stock at finish* respectively—at any rate, in the earlier stages of his study of the subject. The Stock at start is the one in the Trial Balance or list of balances; and it is placed on the *debit* side of the Trading Account. The Stock at finish is the one outside the Trial Balance or list of balances; it is generally stated among the adjustments; and it is placed on the *credit* side of the Trading Account. The Stock at finish must also appear on the assets side of the Balance Sheet. "Stock" is always and distinctly to be understood as "*Stock-in-trade.*" Other stocks, such as Stock of coal, Stock of packages, Stock of stationery, etc., will be definitely stated as such, and must be dealt with separately in either the Trading or Profit and Loss Account as the case may be.

In theory the closing stock is brought in at *cost* or *market price*, whichever is the lower, but in practice a percentage deduction is sometimes made from those articles which have been in stock for some time and may have to be sold at a "job" price.

Work in Progress, Orders on Hand. This item denotes partly executed work, something neither Stock nor Sales. In manufacturing concerns it represents goods in process of manufacture; while in non-manufacturing concerns it may simply denote partly executed orders. A separate account may be opened for it in the Ledger. The Work-in-Progress at start must be *debited* to the Trading Account, and the Work-in-Progress at finish *credited* to the Trading Account. The latter must also appear on the assets side of the Balance Sheet.

Purchases. This item denotes, in an ordinary business, the total of the cash and credit purchases of goods for resale; while, in a manufacturing concern, it represents the purchases of raw material for the purposes of manufacture. It is debited to Trading Account after deducting any Returns and Allowances relating thereto, the deduction being shown in the Trading Account itself. It is *not* correct to put the gross Purchases on the debit side of the Trading Account and the Purchases Returns on the credit side. Students should accustom themselves to look for any Returns and Allowances before they enter the amount of the Purchases in the Trading Account, so as to avoid the necessity for subsequent alteration.

Sales. This item represents the total of the cash and credit sales during the trading period. It is credited to Trading Account after deducting any Returns and Allowances in connexion therewith, the deduction being shown in the Trading Account itself. It is *not* correct to put the gross Sales on the credit side of the Trading Account and the Sales Returns on the debit side. Students should make a point of looking for any Returns and Allowances before

entering the Sales in the Trading Account, so as to avoid having to alter the amount subsequently.

Materials Consumed. This is an item which greatly perplexes the student, and, therefore, a short explanation of it is given. In manufacturing businesses it is necessary to ascertain the cost value of the goods sold during the period, and this figure cannot be obtained without adjusting the opening and closing stocks with the purchases for the period, thus—

Opening Stock	£3,000
Add Purchases	8,500
	11,500
Less Closing Stock	2,450
Materials Consumed	£9,050

When this item appears in the Trial Balance or list of balances, the Stock which appears therein will be the Stock at finish, it having been debited to Stock Account and credited to the Materials Consumed Account. Taking the illustration given above, a Trial Balance would give either—

1. £3,000 and £8,500 as balances with £2,450 stated for adjustment purposes, or,
2. £9,050 and £2,450 as balances and no adjustment required.

This is one exception to the general rule that the Stock at finish is always *outside* the Trial Balance. The student must, therefore, remember that the Stock at finish does *not* in such cases appear in the Trading Account, but *only* in the Balance Sheet. The Trading Account, under such circumstances, assumes the following form—

Dr. TRADING ACCOUNT *Cr.*

	£		£
To Materials Consumed .	9,050	By Sales.	16,720
,, Wages	2,000		
,, Balance (Gross Profit) .	5,670		
	£16,720		£16,720

the Balance Sheet (assets side) showing the item—Stock (at close), £2,450.

Dock Charges. These are tolls or dues levied on ships and their cargoes when entering or leaving docks. Dock Charges inwards, i.e. on Purchases, should be debited to Trading Account; but Dock Charges outwards, i.e. on Sales, should be debited to Profit and Loss.

Duty. This includes both Customs and Excise duties. Customs duties are levied on goods imported and exported; excise duties are imposed on goods produced and consumed in the country itself. A distinction must be made between duties on Purchases and duties on Sales, the former being debited to Trading Account and the latter to Profit and Loss.

Freight. Freight is the charge made for conveyance of goods *by sea*, as opposed to Carriage. Freight Inwards, i.e. on goods *bought*, is debited to Trading Account; but Freight Outwards, i.e. on goods *sold*, is debited to Profit and Loss.

Carriage. This is the charge made for conveyance of goods *by land*, in contradistinction to Freight. Goods are sold either (1) *carriage paid*, or (2) *carriage forward*. This means that in case (1) the *seller* pays the carriage, and in case (2) the carriage has to be paid by the *buyer*. Carriage Inwards increases the cost of the goods purchased, and hence is debited to Trading Account. Carriage Outwards is a selling expense, and is debited to Profit and Loss. In exercises and examination work when Carriage appears in the Trial Balance, and is not specified as being either inward or outward, it is generally assumed to be *inward* and is debited to Trading Account. This is based on the legal aspect of the case, viz., that goods are sold where they stand and the buyer pays carriage. If the student places the Carriage in the Profit and Loss Account, he should guard himself with a note explaining that he has assumed the Carriage to be *outward*.

Cartage or Carting. This is the charge made for carting goods from warehouse to docks or from docks to warehouse, or from vendor's place of business to buyer's shop or warehouse, etc. These charges should be carefully analysed, those relating to goods *purchased* being debited to Trading Account, and those referring to goods *sold* being debited to Profit and Loss. Sometimes, these charges are not posted to special accounts of their own, but are merged in the Carriage Inwards and Carriage Outwards Accounts respectively.

Carriage and Cartage. In the accounts of builders, contractors, etc., this item is frequently debited to Trading Account. It has been charged (usually at a profit) in the estimate for the work done, and is consequently included in the Sales. The entries on the two sides of the Trading Account, therefore, offset each other.

Wages. This item denotes the remuneration paid to employees. Borrowing the phraseology of cost accounts, wages are classified into "remunerative" or "productive" wages, and "unremunerative" or "non-productive" wages. Productive wages are those which are a *direct* charge in the cost of manufacture or production. The term "manufacturing wages" is often employed, and signifies the wages of the factory workpeople and staff.

Salaries may also in certain cases be *productive*. When a separate Manufacturing Account is not prepared, such wages and salaries are debited to Trading Account, as they form part of the cost of the goods. For instance, a boot and shoe manufacturer buys raw material, such as leather, and sells a manufactured article, viz., boots and shoes. He could not properly credit the sale of the manufactured articles, i.e. the boots and shoes, against merely the cost of the raw material, i.e. the leather. The sale of the manufactured article must, of course, be set off against the cost of the manufactured article, which is obviously the cost of the leather plus the wages paid to manufacture it into boots and shoes.

Again, take the case of a large rag merchant. He buys goods in one condition, and employs persons to wash, clean, sort, and pack them in another condition ready for sale. Although nothing is, so to speak, manufactured, yet such wages are undoubtedly Trading Wages; the expense had to be incurred before such goods could be sold.

Non-productive or unremunerative wages are the wages of carmen, stock-keepers, repairers, night watchmen, etc. Such wages are debited to Profit and Loss in the same way as salaries. Storekeepers in charge of raw materials are considered to belong to the productive staff and their wages are charged to Trading Account. Wages usually signify some hourly, daily, or piece-work rate of pay; salaries usually denote some fixed weekly, monthly, or yearly remuneration. When, therefore, the student finds a distinction made in the Trial Balance between Wages and Salaries, he should debit the Wages to Trading Account, and the Salaries to Profit and Loss. When Salaries and Wages appear as one item, they should be debited to Profit and Loss, being assumed to be non-productive. The above direction must not, however, be construed dogmatically, as it is intended to indicate only general principles and main lines of procedure. Special cases arise which must be determined by their own peculiar circumstances, it being quite impossible to lay down any hard-and-fast rule.

Manufacturing Charges or Expenses. These are Expenses of a miscellaneous description that directly increase the cost of the goods; for instance, the dressing and ironing of shirts and collars when made, the sizing of paper or leather, the purchase of chemicals, etc. When a separate Manufacturing Account is not prepared, such expenses are debited to Trading Account.

Royalties. These are payments made to a patentee for the right to use his patent in the manufacturing process. Being productive expenses, they are debited to the Manufacturing Account when there is one, or, alternatively, to the Trading Account.

Motive Power (Gas, Electricity, and Water). Gas is sometimes used to run a little gas engine; electric current and hydraulic

power are also used to work machinery. These expenses must be debited to Trading Account in the absence of a Manufacturing Account.

Fuel (Coal and Coke, Wood, etc.). These items, being manufacturing expenses, are properly chargeable to the Manufacturing or Trading Account. Any unused stock of such articles must be credited to the account concerned, and only the amount actually used debited to the Manufacturing or Trading Account, as the case may be.

Consumable Stores (Engine-room Stores). These are manufacturing charges, and include engine oil. soft soap, tallow, cotton waste, etc. Like the item mentioned in the previous paragraph, the quantity actually consumed is debited to Trading Account, any unused stock being shown on the assets side of the Balance Sheet.

Rent of Factory. This item is debited to Trading Account by many accountants, but opinion is divided upon the question. Where a manufacturing firm owns its factory, an assumed amount representing rent thereof is often debited to the Trading Account and credited to the Profit and Loss Account. The gross profit, therefore, corresponds with the gross profit which would be shown if the firm rented its premises instead of owned them. This prevents misleading comparisons and false conclusions. In exercises where Rent of Factory is shown separately from other rent, the student should debit it to Trading Account; otherwise, there would appear to be no reason for keeping separate Rent Accounts. The same remark applies to Rates of Factory where these have been separated from the other rates.

Packages, Packing Material. In many businesses special packages and special packing are required before goods can be considered ready for sale. In such cases this item of expense should be debited to Trading Account, as it would undoubtedly be charged for when fixing the selling price of the goods. In other cases, the packing material may be looked upon as a selling expense and debited to Profit and Loss. Any unused stock should be credited in the Ledger Account, and shown as an asset on the Balance Sheet. Where no stock is stated—and this is often the case in examination papers—the whole amount should be assumed to have been used, and be written off in the Trading or Profit and Loss Account as the case may be.

QUESTIONS

1. Explain the meaning of the terms "profit" and "loss," distinguishing between "gross" and "net" in each case.
2. What is the difference between "turnover" and "output"? Explain what is meant by "percentage of gross and net profit on turnover." Why is the percentage not calculated on cost?
3. What is a Trading Account, and of what items is it usually comprised?

4. Distinguish between a Trading and (*a*) a Profit and Loss Account, (*b*) a Cost Account, (*c*) a Manufacturing Account.

5. State what the following items in a Trading Account represent: (1) Stock, (2) Work-in-Progress, (3) Purchases, (4) Sales.

6. What is meant by a "Materials Consumed Account," and how is the amount arrived at? Show, by means of *pro forma* examples, the difference in a Trading Account with and without this item.

7. Explain the meaning of the following items: (1) Dock Charges, (2) Duty, (3) Freight, (4) Carriage, (5) Cartage. When are these items charged to Trading Account, and when to Profit and Loss Account?

8. Explain the meaning of "productive wages." Why should they be charged to Trading Account? Illustrate your answer by means of examples.

9. How are Wages distinguished from Salaries?

10. Explain the following: Manufacturing Charges, Royalties, Motive Power, Fuel, Consumable Stores. Should these be charged to Trading Account or to Profit and Loss Account? Give reasons for your answer.

11. What considerations enter into the question as to whether Packages and Packing Material should be charged to Trading Account or to Profit and Loss Account? How is Rent of Factory dealt with?

PROFIT AND LOSS ACCOUNT

As with the Trading Account, so also with the Profit and Loss Account, it is not intended to be confined to a definition, but it is proposed to give additional information on items comprising the account.

Definition. A Profit and Loss Account is an account into which all gains and losses are collected, in order to ascertain the excess of the gains over the losses, or vice versa. If the gains exceed the losses, the excess is called the net profit; if the losses are greater than the gains, the difference is called the net loss. American accountants call this account a "Loss and Gain Account," and such term is undoubtedly a more correct designation.

Dock Charges, Duty, Freight, Carriage, Carting. As mentioned when dealing with the Trading Account, all *outwards* charges in connexion with such items are debited to Profit and Loss, because they are *selling* expenses.

Rent. This is a money payment in return for the use of the business premises. Rent of Factory is, as previously mentioned, sometimes debited to Trading Account and sometimes to Profit and Loss. Two Rent Accounts should be opened whenever any part of the premises is sublet, or whenever rent is received for any property owned by the firm. The object of this is to show the actual gain and loss by Rent. If the Rent Receivable is credited to the Rent Payable Account, the balance of the account conveys a false impression, viz. that the Rent Payable is lower than it really is; and, in the Profit and Loss Account, the income received from Rent is entirely lost sight of.

Ground Rent is the rent payable to the ground landlord for the

use of the land on which the buildings have been erected. Income tax must be deducted from each payment of ground rent. The amount of the tax so deducted may conveniently be debited to the account to which the ground rent has been posted (thus bringing the gross amount into account), and credited to an account, "Commissioners of Inland Revenue." The amount paid for Income Tax Schedule D would be debited to this account, and the balance would be taken to the Profit and Loss Account. If Income Tax has not been paid, then the "Commissioners of Inland Revenue" would be shown on the liabilities side of the Balance Sheet. Ground Rent of manufacturing premises, like Rent of Factory, is sometimes charged to Trading Account.

Rates and Taxes. These are sums levied by municipal bodies, and also by the Government for the purpose of defraying public expenditure. They comprise the general district rate, etc. Income tax, Schedule A (sometimes called Property tax), and Schedule D, is best dealt with in a separate account.

Salaries. This item denotes the weekly or monthly remuneration of the employees of the firm in return for their services. *Productive* salaries should be charged to Trading Account. Where the business is divided into departments, there is generally a similar subdivision of the salaries. Sometimes, the division is into Office, Travellers, and Management Salaries.

Partners' Salaries should be dealt with separately, as they require special treatment when preparing the firm's accounts for income tax assessment.

Salaries and Wages. Unless there is something to indicate the contrary, this item of expenditure is regarded as a selling expense and debited to Profit and Loss. If Wages are grouped with Salaries, the former are considered to be non-productive or unremunerative wages. The distinction between a salary and a wage is far from uniform. Some accountants distinguish by the *kind of work* done; payment for work of a mechanical nature is termed a wage, and payment for work of an administrative nature is called a salary. Other accountants differentiate by the *period of time* covered by the payment; hourly, daily, or weekly rates of pay are called wages, and yearly sums payable half-yearly, quarterly, or monthly, are termed salaries. Again, there are other accountants with whom the criterion is the *amount* of the payment; to such, a small weekly sum denotes a wage, and a large weekly or monthly sum represents a salary.

Discount. This item represents the cash allowances made when accounts are settled. "Discounts Allowed" are a loss, and must be debited to Profit and Loss. "Discounts Received" are a gain, and must be credited to Profit and Loss. The terms "Discounts on Purchases" and "Discounts on Sales" are also in common

use; they usually denote the *cash* discounts mentioned above. A purchase or a sale may be subject to both a trade *and* a cash discount; and unless the discount on such purchase or sale is labelled "Cash" or "Trade" it is not possible to state definitely what it really is. If unlabelled, however, it is safe to treat it as cash discount. In some exercises, the size of the discount (over 5 per cent), obtained by a rough calculation, may be sufficient indication as to the destination of such discounts. Since Trade Discount is usually deducted from Sales and Purchases before they are entered in the books, any discount must (except in very special cases) be assumed to be *Cash* Discount.

Some accountants prefer the terms "Discounts Receivable" and "Discounts Payable" to any of the foregoing terms. Again, other accountants adopt the terms "Discounts on Purchases" and "Discounts on Sales" to denote *cash* discounts; but debit the Discount on Sales to Trading Account, and credit the Discounts on Purchases to Profit and Loss, these latter discounts being dependent on the financial resources of the business, while the former are in effect a reduction of the sales to the absolute net figures.

The student should always treat the two amounts for discount separately. The object of having two totals is to show the actual gain and loss by Discount. It is not, therefore, correct to subtract one lot of discount from the other, and to deal only with the balance.

Interest. This item comprises interest charged on overdue accounts, on overdraft, on bills, on current account, etc. Interest on Capital and Drawings is generally dealt with apart from the general interest, in order to facilitate the preparation of Income Tax Returns. Where Interest has been paid on Loans, *less tax*, the tax should be added and treated in the same way as mentioned under Ground Rent. Interest on Investments will have been received *less tax*, but no adjustment will be necessary. Interest is usually divided into two accounts, Interest Receivable and Interest Payable, and both amounts should be carried to Profit and Loss, the former being credited, and the latter debited.

Commission. While carrying on business for itself, a firm may also do work for other firms; for which, of course, it *charges* a commission. The student will possibly be familiar with one well-known instance, namely Consignments Inwards. The firm may likewise employ agents to sell the firm's goods, and in such cases would have to *pay* commission. Two accounts are usually kept, for Commission Receivable and Commission Payable respectively. The former is credited to Profit and Loss as a gain, and the latter is debited to Profit and Loss as an expense.

Insurance. This item includes all premiums payable to Insurance Companies for indemnity (*a*) in the case of loss of goods or property by fire, burglary, flood, etc.; (*b*) in the case of breakage

of plate glass windows; (*c*) in the case of damages awarded under the Employers' Liability Act, etc. National Insurance payments should preferably be dealt with in a separate account, the employer's contribution being debited to it. Insurance, being an expense, is debited to Profit and Loss.

Bank Charges. These are expenses incurred in the collection of Scotch and Irish cheques. This item often includes charges for cheque books, for keeping current accounts, for discounting bills, etc. Such expenses are losses and are, therefore, debited to Profit and Loss.

Legal and Accountancy Charges. Legal expenses comprise solicitors' fees, law charges, and expenses in connexion with the recovery of debts, in lawsuits, etc. Accountancy charges consist of the fees and expenses in connexion with the investigation or audit of the accounts and books. These expenses are a debit to Profit and Loss.

Printing and Stationery. Expenditure under this heading consists of payments for paper, envelopes, invoices, statements, account books, etc. It often includes the cost of catalogues, samples, etc. Losses of this nature are debited to Profit and Loss.

Advertising. Most businesses incur expenditure under this heading, and many owe their success almost entirely to it. Sometimes contracts are entered into and paid for a period of years in order to obtain cheaper rates. Such money is then debited to an "Advertising Suspense Account," and written off proportionately each year. Profit and Loss Account is, of course, debited with such an expense.

Repairs. Repairs and small renewals or replacements relating to the premises, to the plant and machinery, to the fixtures, fittings, utensils, etc., are generally included under this heading; and such expenditure, being a loss, is debited to Profit and Loss.

Postage, Telegrams, and Bill Stamps. Expenditure of this nature is, like other losses, a charge against profits. Bill Stamps means, of course, stamps on bills of exchange.

Apprentice Premium. This denotes the sum of money demanded in return for teaching a person any particular trade or profession. Being income, it is credited to Profit and Loss; but it is generally apportioned, i.e spread over the period of apprenticeship. Thus, a premium of £400 for five years would be transferred to Profit and Loss by annual instalments of £80, the balance showing in the Balance Sheet as a liability.

Housekeeping Expenses. In some businesses, such as drapers, outfitters, etc., the assistants "live in." The expense of boarding them is, therefore, a proper charge against the profits.

Travellers' Commission and Expenses. In those businesses which employ a number of travellers remunerated by means of

commission and expenses, such expenditure generally forms a separate item in itself. It is, of course, a debit to Profit and Loss.

Travelling Expenses. In some businesses much travelling is necessary, either by principals or by travellers, and sometimes by subordinate officials. Expenditure of such a character is generally dealt with as a separate item of expense, and, like other losses, debited to Profit and Loss.

Office Expenses. These are miscellaneous expenses pertaining to the office in contradistinction to the "works," expenses at the latter place being designated "Trade Expenses" The distinction has long been ignored and is now almost non-existent. Such an item is a charge against profits.

Trade Expenses. Generally speaking, these are expenses of a varied nature for which it is not worth opening separate accounts. They are, therefore, amalgamated under the above heading, or under some other similar term, namely, "General Expenses," "Petty Expenses," "Sundry Expenses." As explained in the previous paragraph, the original distinction between Trade Expenses and Office Expenses has almost reached vanishing point; but where it still obtains, Trade Expenses may be debited to Trading Account, and Office Expenses to Profit and Loss. Except in a few isolated instances, therefore, Trade Expenses are debited to Profit and Loss, the term signifying merely miscellaneous *Business* Expenses and not *Trading* Expenses. It should be noted, however, that the original distinction is sometimes maintained under a new guise, by adopting the terms "Works Expenses" and "Office Expenses." To this, no objection can be taken; but the term "Trade Expenses" is undoubtedly very ambiguous.

Bad Debts. This is a loss which unfortunately most businesses sustain, however careful the management may be in allowing credit to customers. Losses of this nature are also debited to Profit and Loss. Should any bad debts written off be subsequently recovered to any appreciable extent they should not be deducted from the Bad Debts, but should be shown separately on the credit side of the Profit and Loss Account, being income of an extraordinary nature.

Depreciation. This is the loss of value sustained by certain assets through wear and tear, etc., e.g. plant and machinery, buildings, furniture and fixtures. If the business is to be put on a sound financial basis, such loss must be estimated and charged against the profits before arriving at the balance called "net profit." The subject of "depreciation" is dealt with at length in Chapter V.

QUESTIONS

1. What is a Profit and Loss Account, and how does it differ from a Trading Account?

2. Explain the meaning of the following items when they appear in a Profit and Loss Account: Dock Charges, Duty, Freight, Carriage, Cartage.

3. Why do Rent, Rates, and Taxes, and Ground Rent appear in the Profit and Loss Account? How should Ground Rent be treated when it has been paid *less tax*? How would you deal with Rent received from sublettings?

4. What are Salaries, and how do they differ from Wages? To what account would you charge the item "Salaries and Wages," and why?

5. What is meant by Discount? Explain the terms "Discounts Allowed," "Discounts Received," "Discounts on Sales," "Discounts on Purchases." What different methods of treatment are in vogue with respect to the last two items?

6. What do the following items denote: Interest, Commission, Bank Charges? Into what two accounts are each of the former usually divided, and why?

7. Explain the meaning of the following: Insurance, Advertising, Repairs, Travelling Expenses, and why they are charged to Profit and Loss.

8. What are Bad Debts, and how should they be treated? How would you deal with any Bad Debts written off and subsequently recovered?

ADJUSTMENTS AT BALANCING TIME

These include various items which must be charged, or allowed for, before ascertaining the net profit. Outstanding liabilities and accruing income must be brought to account, expenses prepaid, and unexpired income and expenditure must be apportioned, provision must be made for depreciation of assets, and for any expected gains and losses, etc.

Interest on Capital. This is a very usual adjustment where there are partners in a business. If the same amount of capital had been invested elsewhere, it would have earned interest, and the business is, therefore, charged with some rate, usually 5 per cent. Interest Account is debited and the partners' Capital, Drawings, or Current Accounts are credited with the amount. Such interest, however, is not necessarily paid to the partners; nevertheless, it operates as a loss to the business, being a charge against the profits, and as a gain to the partners, because it increases their capital. If placed to their Current Accounts it is then drawn out. (See also Partnership Accounts, Chapter XII.)

Outstanding Liabilities. It very rarely happens that all the liabilities are entered in the books at the date of the half-yearly or yearly balancing. The 30th June and the 31st December seldom occur at the *end* of a week. They may fall in, or about, the middle of the week. This means that two, three, or four days' wages and salaries must be estimated and allowed for. These wages and salaries, though not payable, have accrued due; and they must be debited to the account, as a year's accounts must contain a year's wages and salaries; not a year *less* three or four days. Again,

rent is payable on certain fixed quarter days, 25th March, 24th June, 29th September, and 25th December. The rent for the odd days up to the end of the trading period must, therefore, be calculated and debited to the account, so that a year's accounts shall contain a year's rent. In the case of rates and taxes, the foregoing remarks will also apply. These expenses, being debited to their appropriate Ledger Accounts, are credited to an Outstanding Expenses Account, although as rates are usually payable in advance the adjustment is a Credit to the old year and a Debit to the new. More often than not, however, *no* Journal entry is made; the accruing amounts being debited in their Ledger Accounts for the old period, and brought down as credit balances in the same accounts for the new period.

Example

Dr. RENT, RATES, LIGHTING, AND HEATING *Cr.*

1948		£	1948		£
Jan. 1	To Stock of Fuel and payments in advance b/d .	50	Jan. 1	By Rent and Lighting owing	93
June 30	,, Sundries as per Purchases Book	298			
Dec. 31	,, Sundries as per Purchases Book . . .	124			

The above is the Rent, Rates, Lighting, and Heating Account in the books of a firm for the year ended 31st December, 1948.

The firm have a tenancy of premises at £204 per annum payable half-yearly on 1st February and 1st August. The rate demand note for the year to 31st March, 1949, amounting to £180, was received on 1st June, 1948, and entered in the Purchases Book on that date. The rent was also entered in the Purchases Day Book on the due dates. All accounts for lighting and heating for the year have been received and entered into the Purchases Day Book except one for gas and electricity for the quarter ended 31st December, 1948, amounting to £12. At the end of the year there is a stock of fuel of £4. Included in the debits to the account is a sum of £5 deposited with the local authority as security for Gas and Electricity Accounts. Write out the account as it would be completed in closing the books on 31st December, 1948. For solution see next page.

Accruing Income. It sometimes happens that certain income has accrued due, though it is not actually payable, to the firm. Where part of the premises has been sublet, Rent Receivable up to the time of balancing must be calculated and taken as a profit to Profit and Loss. "Sundry Debtors for Rent" should be debited and "Rent Receivable" credited; or the accrued rent may be adjusted in the Rents Receivable Account itself, by crediting the

amount on one side, and bringing it down as a debit balance on the other side. There may also be some Dividends due on Consols or other investments. These should be debited, *less tax*, to an Outstanding Dividends Account, and credited to a Dividends on Investments Account, this latter account being duly transferred to the credit of Profit and Loss.

Solution to example on previous page

Dr. RENT, RATES, LIGHTING, AND HEATING *Cr.*

1948		£	1948		£
Jan. 1	To Stock of Fuel and payments in advance b/d .	50	Jan. 1	By Rent and Lighting owing	93
June 30	,, Sundries as per Purchases Book . . .	298	Dec. 31	,, Stock of Fuel c/d .	4
Dec. 31	,, Sundries as per Purchases Book . . .	124	,, 31	,, Electricity Deposit c/d .	5
,, 31	,, Amounts owing—		,, 31	,, Rates precharged c/d .	45
	Rent c/d . . .	85	,, 31	,, Profit and Loss A/c .	422
	Gas and Electricity c/d	12			
		£569			£569
1949		£	1949		£
Jan 1	To Stock of Fuel b/d . .	4	Jan. 1	By Rent owing b/d . .	85
,, 1	,, Electricity Deposit b/d .	5	,, 1	,, Gas and Electricity owing b/d . . .	12
,, 1	,, Rates prepaid b/d . .	45			

Alternatively, the Deposit might be transferred to a separate Deposit Account to which all other Deposits would also be debited.

Apportionments. Expenses are sometimes paid which extend over two or three years, such as those for Advertising. A proportionate amount must be calculated each year, and taken as a loss to Profit and Loss. In cases where Telephone, Rent, Trade Subscriptions, Fire Insurance, etc., are paid in advance, if the year covered by the payment does not coincide with the trading year, the unexpired values of such payments must be deducted from the amount spent, and carried forward to the *next* year; so that, of the amount spent, only that portion will be charged to Profit and Loss that really relates to the *current* year. The adjustment may be made by means of a Journal entry, e.g. debiting an Unexpired Insurance Account and crediting Insurance Account; or it may be made in the Insurance Account itself, by crediting the unexpired amount on one side, and bringing it down as a debit balance on the other side. This second method is the more usual. As regards the Telephone Account it must be borne in mind that whilst the *Rent* is payable in advance, the *Calls* are payable in arrears. Not only is it necessary to apportion expenditure, but it is also necessary to apportion any income received in advance, such as Apprentice Premiums, Royalties Received in Advance, etc. The income received should be divided by the number of years over which it extends, and this

will give the amount to be taken to Profit and Loss as the *current* year's share of such income. The adjustment may be made either in the Account itself, or by means of a Journal entry, e.g. in the case of Apprentice Premium, debiting Apprentice Premium Account and crediting an Unexpired Apprentice Premium Account. The former method is usually adopted in practice. See ADJUSTMENTS AND THE BALANCE SHEET, page 83.

Provisions for Expected Losses. Of the Sundry Debtors a certain number may be more or less doubtful debts, and provision must be made therefor. This will be done by debiting Profit and Loss, and crediting a Bad Debts Provision with the estimated amount, or with a certain percentage of the total debtors; or, alternatively, debiting Bad Debts Account and carrying the amount down to the credit. Again, the Sundry Debtors may be subject to cash discount. Provision is made for this loss by estimating the amount, or by taking a percentage of the *good* debts, i.e. the Sundry Debtors less the new Bad Debts Provision. Such amount is then debited to Profit and Loss Account, and credited to an account entitled Provisions for Discount on Debtors; or, alternatively, debited to Discount Account and carried down to the credit. In addition to these two provisions, a Provision for Income Tax should be made (in the case of a company) by debiting Profit and Loss Appropriation Account, and crediting Provision for Income Tax with the estimated amount of tax payable. A Provision for Audit Fee is generally made, so that the auditor's charges may appear in the set of accounts that he has been checking. Otherwise, the audit fee for one year would appear in the next year's accounts, as the auditor cannot send in his account before he has done the work.

Provisions for Expected Gains. If the Sundry Creditors are subject to cash discount, and are shown on the Balance Sheet at their full figure, it is quite evident the liabilities have been overstated. The amount of such discount is therefore estimated, or calculated by means of a certain percentage of the total creditors, and is then credited to Profit and Loss Account, and debited to an account entitled Provision for Discount on Creditors; or, alternatively, credited to Discount Account and brought down to the debit.

Unused Stocks. It often happens at balancing time that there are some unused stocks of printing and stationery, and of catalogues, sample books, circulars, posters and other advertising material. The value of these must be deducted from the amount spent for printing and stationery, advertising, etc., so that only the amount actually used is debited to Profit and Loss. These remarks will also apply to coal, fuel, etc. Only the amount actually used must be debited to Trading Account. The unused stocks of printing and stationery, advertising material, coal, coke, fuel, etc., must be shown as assets on the Balance Sheet.

Depreciation of Assets. All the wasting assets must be depreciated, i.e. a certain amount must be written off their book value, as they are obviously worth less after each year's use. A fixed rate of 10 per cent is generally written off Plant and Machinery, about 5 per cent off Furniture, Fixtures, and Fittings, and $2\frac{1}{2}$ per cent off Land and Buildings. No general schedule of rates can be laid down, however; and they will, consequently, vary according to circumstances. Such a loss is undoubtedly incurred, although indirectly, in the earning of the profit, and must be charged or set off against it. A Depreciation Account is opened and debited with the amounts written off, the asset accounts being credited. The Depreciation Account is then closed by transfer to Profit and Loss. See Chapter V for the various methods.

National Insurance. This is an item which requires adjustment before the books are closed. The employer buys sheets of Insurance stamps, and each week he deducts a proportion from the wages of each employee. The purchase of the stamps is debited to an Insurance Account. The wages paid are debited to a Wages Account, and the salaries to a Salaries Account; both accounts are, of course, below their actual figures owing to the deductions. The Insurance Account is also in excess of the proper amount, because part of the expenditure has been recovered from the workpeople themselves. An adjustment must be made debiting Wages Account and Salaries Account, and crediting Insurance Account, with the total of the deductions. This will raise the Wages Account and the Salaries Account to the proper sums, and at the same time reduce the Insurance Account to the amount actually borne by the employer. Alternatively, this adjustment is made in the Wages Summary before being posted to the Ledger.

An example showing the journalizing of a number of adjustments, etc., will now be worked.

Example. G. Kenn's Trial Balance as at 31st December contained the following items—

	£
Plant and Machinery	550
Office Furniture	120
Bad Debts Provision	102
Apprenticeship Premium . . .	100
Sundry Debtors	2,200

The following matters have to be taken into account before the preparation of the final accounts—

1. Depreciation of Plant and Machinery 10 per cent.
2. Depreciation of Office Furniture 5 per cent.
3. Kenn has used goods of the business amounting to £23.
4. The Bad Debts Provision is to be increased to 5 per cent on Sundry Debtors.
5. Rent accrued to date £33.
6. Rates £78 have been paid in advance.
7. £100 Apprenticeship Premium received previous 1st January is to be written off over five years in equal amounts.

Show the Journal entries.

	JOURNAL	Dr.	Cr.
19..		£	£
Dec. 31	Depreciation A/c To Plant and Machinery Being 10% written off.	55	55
	Depreciation A/c To Office Furniture Being 5% written off.	6	6
	G. Kenn, Drawings A/c To Purchase A/c Being Goods drawn out of the business for private consumption.	23	23
	Profit and Loss A/c To Bad Debts Provision Being amount required to bring Provision up to 5%.	8	8
	Rent A/c. To Rent Accrued A/c Being Balance carried forward.	33	33
	Rates Prepaid A/c To Rates A/c Being Balance carried forward.	78	78
	Apprenticeship Premium To Profit and Loss A/c Being yearly sum written off.	20	20

QUESTIONS

1. Explain the meaning of the phrase "Adjustments at balancing time." Give examples.

2. What outstanding liabilities have usually to be provided for at balancing time? What accruing income must also be brought to account?

3. What apportionments are usually necessary at the time of closing the books, and why? How is the Balance Sheet affected by such apportionments?

4. Explain what adjustments come under the following headings—
   (*a*) Provisions for Expected Losses.
   (*b*) Provisions for Expected Gains.

5. Why must Interest on Capital and Depreciation of Assets be charged against profits?

6. What adjustments are rendered necessary at balancing time, (*a*) through unused stocks of stationery, advertising material, etc., on hand, (*b*) through national insurance?

(For reserves and provisions, see also page 149.)

PROVISIONS FOR BAD DEBTS

Bad Debts Provision. This is a charge made against profits in order to provide for possible bad debts.

How the Amount of the Provision is Ascertained. The amount of the Provision is either the total of a specially compiled list of doubtful amounts, or a fixed percentage of the total debtors, or, in some cases a small percentage ($\frac{1}{2}$ per cent and upwards) of the turnover or total sales, based on past experience. The bad debts, however, usually stand in direct relation to the debtors and not to the total sales, and the last-named method is only applicable where the debts are very numerous, and where the bad debts may be considered to be uniformly in proportion to the trade done.

Object of Making a Provision. The object of making the Provision is in order to show the debtors on the Balance Sheet at their true value if possible. It is misleading to show, say, £5,000 Debtors as an asset on the Balance Sheet if at least 5 per cent of them, namely, £250, are possible bad debts. On the Balance Sheet, therefore, the Provision, although a credit balance, is not placed on the liabilities side, but is shown on the *assets* side, as a deduction from the debtors.

Methods of Creating a Provision. Two methods are in use with regard to the construction of the Provision:

1. The amount of the Provision is debited direct to Profit and Loss Account, and credited to a Bad Debts Provision Account.

2. The amount of the Provision is debited to the Bad Debts Account, and credited to a Bad Debts Provision Account. In some cases, the Provision is not placed in a separate account, but is brought down as a credit balance in the Bad Debts Account itself. This method (though quite usual commercially) is puzzling to a student, as it leaves room for doubt whether the item "Bad Debts Account, credit balance," denotes some Bad Debts Recovered, or whether it stands for the Bad Debts Provision.

Objections have been raised against both ways. As regards the first way, it means that Profit and Loss Account must be opened before the Trial Balance is completed; otherwise, the student working a continuous exercise (i.e. one not in two separate parts) must omit the entry for the Bad Debts Provision until he makes the Profit and Loss Account.

With respect to the second way, it is urged that the amount is not an *actual* bad debt, but only a *possible* bad debt, thereby showing a fictitious amount for Bad Debts, and, as a result, rendering all comparisons of amounts for different years inaccurate and misleading.

Methods of Dealing with the Provision and the Bad Debts Account. With respect to this, two methods obtain—

1. The Bad Debts are transferred direct to the Profit and Loss Account, thus ignoring the Provision created specially to meet them. The two Provisions are then adjusted by themselves. If the old Provision is not large enough, the extra amount required is debited to Profit and Loss Account, and credited (or added on) to the Provision. If the old Provision is too large, the amount beyond what is required is debited to (or subtracted from) the Provision, and credited back to Profit and Loss Account.

2. The Bad Debts are transferred to the Provision made specially for them, so far as it is sufficient to meet them. Any balance beyond the amount of the Provision must be debited to Profit and Loss Account, in addition to the amount of the new Provision. Should, however, the Provision be greater than the amount of the Bad Debts, then the surplus will be carried forward to the new Provision, and thus reduce the amount debited to Profit and Loss Account in order to make the fresh Provision.

Example 1. The Bad Debts Provision at 1st January was £120. The Bad Debts during the year amounted to £105. The Debtors at 31st December are £2,700. Make a new Provision of 5 per cent.

Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries.

First Method

JOURNAL

		Dr.	Cr.
19..		£	£
Dec. 31	Profit and Loss A/c	105	
	To Bad Debts		105
	Transfer of balance.		
,, 31	Profit and Loss A/c	15	
	To Provision for Bad Debts . . .		15
	Additional amount required to raise Provision from £120 to £135 (5% on £2,700).		

LEDGER

Dr. BAD DEBTS Cr.

19..		£	19..		£
Jan. to Dec.	To Sundry Debtors . .	105	Dec. 31	By Profit and Loss A/c . .	105

Dr. PROVISION FOR BAD DEBTS Cr.

19..		£	19..		£
Dec. 31	To Amount c/d . . .	135	Jan. 1	By Balance . . .	120
			Dec. 31	,, Profit and Loss A/c . .	15
		£135			£135
			Jan. 1	By Balance b/d . . .	135

Dr. PROFIT AND LOSS ACCOUNT

	£	£
To Bad Debts		105
,, Provision for Bad Debts (5% on £2,700) . .	135	
Less Old Provision	120	15

BALANCE SHEET

Assets	£	£
Sundry Debtors	2,700	
Less Provision for Bad Debts	135	2,565

X Alternative Method

JOURNAL

		Dr.	Cr.
		£	£
19.. Dec. 31	Provision for Bad Debts	105	
	To Bad Debts		105
	Transfer of balance		
" 31	Bad Debts	120	
	To Provision for Bad Debts . . .		120
	Additional amount required to raise balance from £15 to £135 (5% on £2,700).		
" 31	Profit and Loss A/c	120	
	To Bad Debts		120
	Transfer of balance.		

LEDGER

BAD DEBTS

Dr.					Cr.
		£			£
19.. Jan. to Dec.	To Sundry Debtors . .	105	19.. Dec. 31	By Provision for Bad Debts .	105
Dec. 31	" Provision for Bad Debts .	120	" 31	" Profit and Loss A/c . .	120
		£225			£225

PROVISION FOR BAD DEBTS

Dr.					Cr.
		£			£
19.. Dec. 31	To Bad Debts . . .	105	19.. Jan. 1	By Balance	120
" 31	" Balance c/d . . .	135	Dec. 31	" Bad Debts . . .	120
		£240			£240
			19.. Jan. 1	By Balance b/d . . .	135

PROFIT AND LOSS ACCOUNT

Dr.		
	£	£
To Bad Debts		120

BALANCE SHEET

Assets	£	£
Sundry Debtors	2,700	
Less Provision for Bad Debts	135	2,565

Example 2. On 1st January the Provision for Bad Debts was £86. The Bad Debts during the year amounted to £115. The Debtors at 31st December are £2,840, and a new Provision of 5 per cent thereof is required. Make the necessary Journal and Ledger entries, and show the Profit and Loss Account and Balance Sheet.

First Method

JOURNAL

		Dr.	Cr.
19.. Dec. 31	Profit and Loss A/c	£ 115	£
	To Bad Debts		115
	Transfer of balance.		
„ 31	Profit and Loss A/c	56	
	To Provision for Bad Debts . . .		56
	Additional amount required to raise Provision from £86 to £142 (5% on £2,840).		

LEDGER

BAD DEBTS

Dr.					Cr.
19.. Jan. to Dec.	To Sundry Debtors . .	£ 115	19.. Dec. 31	By Profit and Loss A/c. .	£ 115

PROVISION FOR BAD DEBTS

Dr.					Cr.
19.. Dec. 31	To Balance c/d . . .	£ 142	19.. Jan. 1	By Balance	£ 86
			Dec. 31	„ Profit and Loss A/c . .	56
		£142			£142
			19.. Jan. 1	By Balance b/d . . .	142

PROFIT AND LOSS ACCOUNT

Dr.	£	£
To Bad Debts		115
„ Provisions for Bad Debts (5% on £2,840) . .	142	
Less Old Provision	86	56

BALANCE SHEET

Assets	£	£
Sundry Debtors	2,840	
Less Provision for Bad Debts	142	2,698

X

Alternative Method

JOURNAL

		Dr.	Cr.
		£	£
19.. Dec. 31	Provision for Bad Debts	86	
	To Bad Debts		86
	Transfer of balance.		
„ 31	Bad Debts	142	
	To Provision for Bad Debts . . .		142
	Amount required for new Provision (5% on £2,840).		
„ 31	Profit and Loss A/c	171	
	To Bad Debts		171
	Transfer of balance.		

LEDGER

Dr. BAD DEBTS Cr.

		£			£
19.. Jan. to Dec.	To Sundry Debtors . .	115	19.. Dec. 31	By Provision for Bad Debts .	86
Dec. 31	„ Provision for Bad Debts .	142	„ 31	„ Profit and Loss A/c . .	171
		£257			£257

Dr. PROVISION FOR BAD DEBTS Cr.

		£			£
19.. Dec. 31	To Bad Debts	86	19.. Jan. 1	By Balance	86
„ 31	„ Balance c/d	142	Dec. 31	„ Bad Debts	142
		£228			£228
			19.. Jan. 1	By Balance b/d . . .	142

Dr. PROFIT AND LOSS ACCOUNT

	£	£
To Bad Debts		171

BALANCE SHEET

Assets	£	£
Sundry Debtors	2,840	
Less Provision for Bad Debts	142	2,698

Example 3. On 1st January the Provision for Bad Debts was £206. The Bad Debts during the year amounted to £55. The Debtors at 31st December are £2,440, and a new Provision of 5 per cent is required. Make the necessary Journal and Ledger entries, and show also the Profit and Loss Account and Balance Sheet.

First Method

JOURNAL

		Dr.	Cr.
19.. Dec. 31	Profit and Loss A/c . . . . . . To Bad Debts . . . . . . Transfer of balance.	£ 55	£ 55
,, 31	Provision for Bad Debts . . . . . To Profit and Loss A/c . . . . . Amount credited back to Profit and Loss A/c in order to reduce Provision from £206 to £122 (5% on £2,440).	84	84

LEDGER

BAD DEBTS

Dr.					Cr.
19.. Jan. to Dec.	To Sundry Debtors . .	£ 55	19.. Dec. 31	By Profit and Loss A/c . .	£ 55

PROVISION FOR BAD DEBTS

Dr.					Cr.
19.. Dec. 31	To Profit and Loss A/c .	£ 84	19.. Jan. 1	By Balance	£ 206
,, 31	,, Balance c/d . . .	122			
		£206			£206
			19.. Jan. 1	By Balance b/d . . .	122

PROFIT AND LOSS ACCOUNT

Dr.			Cr.
To Bad Debts. . . .	£ 55	By Provision for Bad Debts— ,, Old Provision . . £206 *Less* New . . 122	£ 84

BALANCE SHEET

Assets	£	£
Sundry Debtors	2,440	
Less Provision for Bad Debts	122	2,318

Alternative Method

JOURNAL

		Dr.	Cr.
		£	£
19.. Dec. 31	Provision for Bad Debts . . . . To Bad Debts . . . . Transfer of balance.	55	55
,, 31	Provision for Bad Debts . . . . To Profit and Loss A/c . . . . Amount credited back to Profit and Loss A/c to reduce Provision from £151 to £122 (5% on £2,440).	29	29

LEDGER

BAD DEBTS

Dr.					Cr.
		£			£
19.. Jan. to Dec.	To Sundry Debtors . .	55	19.. Dec. 31	By Provision for Bad Debts .	55

PROVISION FOR BAD DEBTS

Dr.					Cr.
		£			£
19.. Dec. 31	To Bad Debts . . .	55	19.. Jan. 1	By Balance	206
,, 31	,, Profit and Loss A/c .	29			
,, 31	,, Balance c/d . . .	122			
		£206			£206
			19.. Jan. 1	By Balance b/d . . .	122

PROFIT AND LOSS ACCOUNT

Dr.			Cr.
			£
		By Provision for Bad Debts .	29

BALANCE SHEET

Assets	£	£
Sundry Debtors	2,440	
Less Provision for Bad Debts	122	2,318

Other Methods. Commercial practice in some parts of the country favours the method of bringing down the Provision in the Bad Debts Account itself, the argument being that it is preferable to show the total amount of Bad Debts (including Provision) for the

Profit and Loss Account in *one* sum, as this facilitates comparison of one year with another. The following workings of the examples given will exemplify this practice—

Example 1

Dr. BAD DEBTS *Cr.*

19.. Jan. to Dec.	To Sundry Debtors . .	£ 105	19.. Jan. 1	By Balance b/f . . .	£ 120
Dec. 31	,, Provision (5% on £2,700 c/d)	135	Dec. 31	,, Profit and Loss A/c . .	120
		£240			£240
			19.. Jan. 1	By Balance b/d . . .	135

Example 2

Dr. BAD DEBTS *Cr.*

19.. Jan. to Dec.	To Sundry Debtors . .	£ 115	19.. Jan. 1	By Balance b/f . . .	£ 86
Dec. 31	,, Provision (5% on £2,840 c/d)	142	Dec. 31	,, Profit and Loss A/c . .	171
		£257			£257
			19.. Jan. 1	By Balance b/d . . .	142

Example 3

Dr. BAD DEBTS *Cr.*

19.. Jan. to Dec.	To Sundry Debtors . .	£ 55	19.. Jan. 1	By Balance b/f . . .	£ 206
Dec. 31	,, Provision (5% on £2,440 c/d)	122			
,, 31	,, Profit and Loss A/c .	29			
		£206			£206
			19.. Jan. 1	By Balance b/d . . .	122

The choice of method to use does not matter from the point of view of the result, and in many cases depends upon the views of the auditors who are to check the books. There is, however, one drawback to all the methods already illustrated; it is that no figure appears which represents the amount of debts provided against which have proved to be good by recovery, and from the point of view of the Inspector of Taxes this is rather important. This can be shown as follows—

Example. On 1st January the Provision for Bad Debts was £155. During the year £41 of these proved to be bad while £85 was collected and £19 of debts were bad that were not provided for. A new Provision of £211 is required.

Dr. BAD DEBTS *Cr.*

19.. Dec. 31	To Bad Debt w/o . . .	£ 19	19.. Dec. 31	By Profit and Loss A/c . .	£ 19

Dr. PROVISION FOR BAD DEBTS *Cr.*

19..		£	19..		£
Dec. 31	To Bad Debts w/o . .	41	Jan. 1	By Balance b/d . . .	155
" 31	" Profit and Loss A/c—Debts recovered . .	85	Dec. 31	" Profit and Loss A/c—amount required to increase Provision to £211	182
" 31	" Balance c/d . . .	211			
		£337			£337
			19.. Jan. 1	By Balance b/d . . .	211

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

19..		£	19..		£
Dec. 31	To Bad Debts . . .	19	Dec. 31	By Doubtful Debts recovered.	85
" 31	" Provision for Bad Debts .	182			

(w/o = written off)

PROVISIONS FOR DISCOUNT

Provision for Discount on Debtors. This is a charge made against profits, in order to provide for an expected loss in the shape of discounts that will have to be allowed to the firm's debtors on payment of their accounts.

Provision for Discount on Creditors. This is an addition to the profits, to provide for those discounts expected to be received on payment of the firm's creditors.

Object of Making Discount Provisions. The object of making provisions for discount is that the Debtors and Creditors shall appear on the Balance Sheet at their true value; otherwise, we should be *overstating* both our assets and liabilities. For this reason, therefore, such Provisions are usually shown on the Balance Sheet as deductions from the Debtors and Creditors respectively.

Arguments For and Against Discount Provisions. Some accountants urge that discounts expected to be allowed, and received, should not be taken into account at all; that these discounts should, properly speaking, appear only in the same period

as the Cash receipts or payments to which they belong. One argument *for* them has already been mentioned, namely, the otherwise overstating of the Debtors and Creditors.

Another argument urged in their favour is that the Debtors are the result of sales, and that on each sale a certain amount of profit has been taken credit for, even though the debt has not actually been paid, and that the discount to be allowed to the debtor on payment of the account is really a reduction of that profit to a smaller amount, and should, therefore, fall in the same period as the one in which the profit has been shown; so that only the exact amount of profit on each sale shall be taken credit for. And if it be right thus to anticipate the profit on the sale (for the profit is not really made unless and until the debt is actually paid), it surely cannot be wrong to anticipate any loss that will be made in the realizing of such profit.

Methods of Making the Provisions. The Provisions are made by means of a Journal entry direct to Profit and Loss Account. Another method is to debit or credit them to the Discount Account. The objection to the latter method is that these amounts are not *actual* discounts but only Provisions.

How the Amounts of the Provisions are Arrived At. The Discount Provisions may be the amounts of specially compiled lists of discounts allowable and receivable, but, generally speaking, they are calculated by means of a fixed percentage on the amount of the outstanding Debtors and Creditors. Any new Provisions that are made must, of course, be adjusted each year with the old ones, as we do not require double Provisions. The method of treatment is similar to that adopted with Provisions for Bad Debts dealt with earlier in this chapter.

Note on Provision for Discount on Debtors. The Provision for Discount on Debtors should, properly speaking, be calculated on the *good* Debtors, that is, on the amount of the Debtors *less* the new Bad Debts Provision (if any). A debt cannot be both good and bad. If we provide for it being bad, we shall not require discount on it. On the other hand, should the debt turn out good, then the amount we have provided for it as a bad debt will be much greater than the discount allowed on it.

To make *ample* provision for losses is all that is required: there is no object in making *excessive* provision.

Example 1. The Sundry Debtors at 31st December are £4,715 15s. 9d. A Bad Debts Provision of 5 per cent is made, and also a Discount Provision of 5 per cent. The Discounts Allowed during the year amounted to £167. The Discount Provision on 1st January was £200.

Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to Discount.

First Method

JOURNAL

		Dr.	Cr.
		£	£
19.. Dec. 31	Profit and Loss A/c	167	
	To Discounts Allowed		167
	Transfer of balance.		
„ 31	Profit and Loss A/c	24	
	To Provision for Discount on Debtors .		24
	Amount required to raise old Provision from £200 to £224 (5% on £4,480, viz. £4,715 15s. 9d. less Provision for Bad Debts, £235 15s. 9d.).		

LEDGER

DISCOUNTS ALLOWED

Dr.					Cr.
		£			£
19.. Dec. 31	To Sundries . . .	167	19.. Dec. 31	By Profit and Loss A/c . .	167

PROVISION FOR DISCOUNT ON DEBTORS

Dr.					Cr.
		£			£
19.. Dec. 31	To Balance c/d . . .	224	19.. Jan. 1	By Balance	200
			Dec. 31	„ Profit and Loss A/c . .	24
		£224			£224
			19.. Jan. 1	By Balance b/d . . .	224

PROFIT AND LOSS ACCOUNT

Dr.	£	£
To Discounts Allowed		167
„ Provision for Discount on Debtors	224	
Less Old Provision	200	24

BALANCE SHEET

Assets	£ s. d.	£ s. d.
Sundry Debtors	4,715 15 9	
Less Bad Debts Provision	235 15 9	
	4,480 – –	
Less Discount Provision	224 – –	4,256 – –

Alternative Method

JOURNAL

		Dr.	Cr.
19..		£	£
Dec. 31	Provision for Discount on Debtors . .	167	
	To Discounts Allowed		167
	Transfer of balance.		
„ 31	Discounts Allowed	191	
	To Provision for Discount on Debtors .		191
	Additional amount required to raise old Provision from £33 to £224 (as above).		
„ 31	Profit and Loss A/c	191	
	To Discount Allowed		191
	Transfer of balance.		

LEDGER

Dr. DISCOUNTS ALLOWED Cr.

		£			£
19..			19..		
Jan. to Dec.	To Sundries . . .	167	Dec. 31	By Discount Provision . .	167
Dec. 31	„ Discount Provision . .	191	„ 31	„ Profit and Loss A/c . .	191
		£358			£358

Dr. PROVISION FOR DISCOUNT ON DEBTORS Cr.

		£			£
19..			19..		
Dec. 31	To Discounts Allowed . .	167	Jan. 1	By Balance	200
„ 31	„ Balance c/d . . .	224	Dec. 31	„ Discounts Allowed . .	191
		£391			£391
			19..		
			Jan. 1	By Balance b/d . . .	224

Dr. PROFIT AND LOSS ACCOUNT

	£	£
To Discounts Allowed		191

BALANCE SHEET

Assets	£ s. d.	£ s. d.
Sundry Debtors	4,715 15 9	
Less Bad Debts Provision	235 15 9	
	4.480 – –	
Less Discount Provision	224 – –	
		4,256 – –

Example 2. On 1st January the Provision for Discount on Creditors was £120. The Discounts Received during the year amounted to £104. The Creditors at 31st December are £4,960, and a new Provision of $2\frac{1}{2}$ per cent is required. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to Discount.

First Method

JOURNAL

		Dr.	*Cr.*
19..		£	£
Dec. 31	Discounts Received	104	
	To Profit and Loss A/c		104
	Transfer of balance.		
" 31	Provision for Discount on Creditors . .	4	
	To Profit and Loss A/c		4
	Additional amount required to raise Provision from £120 to £124 ($2\frac{1}{2}$% on £4,960).		

LEDGER

Dr. DISCOUNTS RECEIVED *Cr.*

19.. Dec. 31	To Profit and Loss A/c .	£ 104	19.. Jan. to Dec.	By Sundries . . .	£ 104

Dr. PROVISION FOR DISCOUNT ON CREDITORS *Cr.*

19..		£	19..		£
Jan. 1	To Balance	120	Dec. 31	By Balance c/d . . .	124
Dec. 31	" Profit and Loss A/c .	4			
		£124			£124
19..					
Jan. 1	To Balance b/d . . .	124			

PROFIT AND LOSS ACCOUNT *Cr.*

	£	£
By Discounts Received		104
" Provision for Discount on Creditors . . .	124	
Less Old Provision	120	4

BALANCE SHEET

Liabilities	£	£
Sundry Creditors	4,960	
Less Provision for Discount	124	4,836

Alternative Method

JOURNAL

		Dr.	*Cr.*
19..		£	£
Dec. 31	Discounts Received	104	
	To Provision for Discount on Creditors		104
	Transfer of balance.		
,, 31	Provision for Discount on Creditors	108	
	To Discounts Received		108
	Additional amount required to raise Provision from £16 to £124 (as above).		
,, 31	Discounts Received	108	
	To Profit and Loss A/c		108
	Transfer of balance.		

LEDGER

Dr. DISCOUNTS RECEIVED *Cr.*

		£			£
19..			19..		
Dec. 31	To Discount Provision	104	Jan. to Dec.	By Sundries	104
,, 31	,, Profit and Loss A/c	108	Dec. 31	,, Discount Provision	108
		£212			£212

Dr. PROVISION FOR DISCOUNT ON CREDITORS *Cr.*

		£			£
19..			19..		
Jan. 1	To Balance	120	Dec. 31	By Discounts Received	104
Dec. 31	,, Discounts Received	108	,, 31	,, Balance c/d	124
		£228			£228
19..					
Jan. 1	To Balance b/d	124			

PROFIT AND LOSS ACCOUNT *Cr.*

	£	£
By Discounts Received		108

BALANCE SHEET

Liabilities	£	£
Sundry Creditors	4,960	
Less Provision for Discount	124	4,836

Supposing we had placed the Provisions in both examples in the Discount Account instead of in separate Provision Accounts, as is sometimes done, the Discount Account would appear as under—

Dr. DISCOUNT *Cr.*

19..		£	19..		£
Jan. 1	To Balance	120	Jan. 1	By Balance	200
Dec. 31	,, Sundries	167	Dec. 31	,, Sundries . . .	104
,, 31	,, Provision on Debtors c/d .	224	,, 31	,, Provision on Creditors c/d .	124
			,, 31	,, Profit and Loss A/c . .	83
		£511			£511
19..			19..		
Jan. 1	To Balance b/d . . .	124	Jan. 1	By Balance b/d . . .	224

This method, although shown for the purpose of information, is not recommended to the student, as it is rather complicated; and it is also very confusing to have *two* balances in *one* account. From the commercial viewpoint, also, it is better to be able to see at a glance the amount of the discount allowed and of that received.

Other Methods. As with the Bad Debt Provision so also with the Discount Provision, some accountants favour the method of bringing down the Provision in the Discount Account itself. The advantage claimed for it is that the total amount of Discount (including Reserve) for the Profit and Loss Account is shown in *one* sum, and this facilitates comparison of one year with another. The following workings of the examples given will exemplify this practice—

Example 1

Dr. DISCOUNTS ALLOWED *Cr.*

19..		£	19..		£
Jan. to Dec.	To Sundries	167	Jan. 1	By Balance b/f . . .	200
Dec. 31	,, Provision on Debtors (5% on £4,480 c/d) . .	224	Dec. 31	,, Profit and Loss A/c . .	191
		£391			£391
			19..		
			Jan. 1	By Balance b/d . . .	224

Example 2

Dr. DISCOUNTS RECEIVED *Cr.*

19..		£	19..		£
Jan. 1	To Balance	120	Jan. to Dec.	By Sundries	104
Dec. 31	,, Profit and Loss A/c	108	Dec. 31	,, Provision on Creditors (2½% on £4,960 c/d)	124
		£228			£228
19..					
Jan. 1	To Balance b/d	124			

QUESTIONS

1. Define "Bad Debts Provision."
2. How is the amount of the Bad Debts Provision arrived at? What objection is there to taking a percentage of the sales?
3. What is the object of making a Bad Debts Provision?
4. Explain briefly the two methods of creating a Bad Debts Provision, and also the objection raised against them.
5. Explain briefly the different methods of treating the Bad Debts Provision and Bad Debts respectively.
6. Define the following: "Provision for Discount on Debtors." "Provision for Discount on Creditors."
7. What is the object of making Discount Provisions?
8. State briefly some of the arguments *for* and *against* making Provisions for Discount.
9. What different methods are there of making the Discount Provisions?
10. How is the amount of the Discount Provision ascertained?
11. Should a Discount Provision be calculated on the full amount of the Debtors or not? Give reasons for your answer.

CLOSING ENTRIES

Definition. Closing entries are the Journal entries by means of which (*a*) the Stocks, Purchases, Sales, Returns, Wages, Coal and Coke, etc., are transferred to the Trading Account, (*b*) the various Gains and Losses to the Profit and Loss Account, (*c*) the net Profit or Loss, and the Drawings (if any) to the Capital Account.

How Accounts are Closed. Nominal accounts, i.e. those denoting gains and losses, are closed by transfer to Trading Account or Profit and Loss. Personal accounts, i.e. those of debtors and creditors, are usually closed by actual receipt or payment of the money. Real or Property accounts, i.e. Plant and Machinery, Fixtures, etc., are not closed, being merely balanced. To close an account with a debit balance it must be *credited* with the amount required to make the two sides equal; and to close an account with a credit balance it must be *debited* with the amount required to make the two sides equal. The accounts containing losses, being debit balances, must be credited "*By Profit and Loss*"; and the gains, being credit balances, must be debited "*To Profit and Loss.*"

Formula for Closing Entries. In actual practice, the closing entries are frequently made direct from the Ledger accounts themselves to the Trading and Profit and Loss Account, which is written up at the back of the Ledger; but, in examination work, it is often necessary to know how to make the requisite Journal entries. All the items (except Stock at finish, adjustments, etc.) are obtained from the Trial Balance. In business, the Stock at finish can be ascertained only by actual stock-taking, but in an exercise it is definitely stated. Sometimes, there is no Stock at start in the Trial Balance, and this fact greatly perturbs students. But it is quite in order. In the first year of business the capital may be all in money; everything has then to be bought; and so the first year's Trading Account will start with Purchases instead of Stock. There will, however, be a Stock at finish. The method of procedure is, therefore, as follows—

1. *Debit* Trading Account with the total of the following: Stock at start, Purchases less Returns, Wages, Carriage Inwards, Coal and Coke (if any), and *credit* each of these accounts.
2. *Credit* Trading Account with the total of Sales less Returns, Stock at finish, and *debit* the accounts named.
3. Subtract the *debit* total of Trading Account from the *credit* total of Trading Account, and the balance will be the *gross* profit.
4. Carry down the amount of the gross profit to the credit of the Profit and Loss Account, *debit* Discounts Received Account, and other Profit Accounts (if any) with their respective amounts, and *credit* Profit and Loss Account with the total of all these gains.
5. *Debit* Profit and Loss Account with the total of all the losses shown in the various accounts, and *credit* each of the latter.
6. Subtract the *debit* total of Profit and Loss Account from the *credit* total of Profit and Loss Account, and the balance will be the *net* profit.
7. *Debit* Profit and Loss Account, and *credit* Capital Account, with the amount of the *net* profit.
8. *Debit* Capital Account, and *credit* Drawings Account, with the amount of the Drawings (if any).

In the event of a *gross loss*, this will be debited to Profit and Loss along with the other losses, as stated in No. 5.

In the event of a *net loss* Capital Account must be *debited* and Profit and Loss Account *credited*, with the amount thereof—in fact, just the reverse procedure to No. 7.

BALANCE SHEET

Definition. A Balance Sheet is a statement prepared from the books of a concern showing the debit and credit balances thereof after the Trading and Profit and Loss Accounts have been prepared,

whether actual assets and liabilities or not, and the balance, whether of Capital, Reserve, or Profit, at a given date. An alternative definition is "a Balance Sheet is a statement drawn up at the end of each trading or financial period, setting forth the various assets and liabilities of the concern as at this date." It is also described as a classified summary of the debit and credit balances existing in the Ledger after the Profit and Loss Account has been constructed. This is because a Balance Sheet often contains items which cannot, strictly speaking, be characterized either as assets or as liabilities.

What a Balance Sheet tells us. A properly drawn up Balance Sheet should give us information on four important points—

1. The nature and cost of the assets.
2. The nature and extent of the liabilities.
3. Whether the firm is solvent.
4. Whether the firm is over-trading.

If the assets exceed the liabilities, the firm is solvent, that is, able to pay its debts in full. A business is, therefore, solvent by the amount of the capital in it, since Capital itself is the excess of assets over liabilities. The last point, No. 4, concerns the stability of the business. If the total of the debts due to Creditors (including Bank if an overdraft) is greater than the liquid assets (Cash, Investments, Bills, etc., i.e. the resources readily available to pay them), the position of the firm may be financially unsound. Where debts are being contracted without sufficient means of payment, the firm is said to be over-trading. Further, for the position to be quite sound, there should be some working capital, that is, some spare liquid assets available for current expenditure. It is not a wise policy to lock up the capital in fixed assets. It means that the firm must eventually resort to loans, the interest on which absorbs the profits. The concern may, therefore, be solvent without being sound.

Difference between a Trial Balance and a Balance Sheet. A Trial Balance is a list of *all* the Ledger balances, not only assets and liabilities, but also gains and losses. A Balance Sheet is a list of a *part* only of the Ledger balances, i.e. those remaining after the profit and loss items have been dealt with—the assets and liabilities.

Controversy re Form and Headings of Balance Sheet. In the Ledger, the Assets appear on the debit or left-hand side, and the Liabilities on the credit or right-hand side. Since the Balance Sheet purports to represent the state of affairs *as shown by the books* of the business, it might be argued that the assets and liabilities should appear on the same sides of the Balance Sheet as the sides they are on in the Ledger. But, in the English form of Balance

Sheet, the sides are reversed. This is no doubt owing to the mistaken idea that the Balance Sheet is an *account*, whereas it is really only a *statement*. For this reason it is quite wrong to head the sides of a Balance Sheet as "Dr." and "Cr." What may be said to be the more technically correct form is, however, in use by American, and by some English and Scottish, accountants; but the mode of stating the assets on the right-hand side and the liabilities on the left is now almost universally accepted.

Not only upon the form, but also upon the nomenclature of the Balance Sheet, there has raged a protracted and, at times, acute controversy. A Balance Sheet, not being an account, does not require to be headed with the contractions "Dr." and "Cr."; while the words "To" and "By," prefixed to the liabilities and assets respectively, are equally superfluous. The headings "Assets" and "Liabilities" have also evoked much criticism. Although not entirely satisfactory, they are mainly correct. Other items, it is true, are met with which cannot be so classed, viz. Reserves, Sinking Funds, Preliminary Expenses, Income received in Advance, etc. Balance Sheets are sometimes met with in which the headings "Assets" and "Liabilities" have been omitted altogether. The suggested headings: *Capital, Reserves and Liabilities*; *Property, Assets and Expenditure*; still fall short of exactness. *Liabilities and Sundry Credit Balances*, *Assets and Sundry Debit Balances*, would be nearer the mark; while the headings, *Ledger Credits*, *Ledger Debits*, would be more exact designations, though not very explanatory.

In double entry book-keeping, a business is regarded as a separate entity, that is, as existing apart from the proprietor of it. The Balance Sheet is, therefore, the Balance Sheet of the business, and not of the proprietor. That is why Capital is shown as a liability, being a *debt* due by the business to its proprietor. In his private Balance Sheet the proprietor would show as one of his assets: "Capital in such and such a Business." This is quite in harmony with the principle of double entry.

Order of Stating Assets and Liabilities on a Balance Sheet. The question often arises in the student's mind as to the order in which the assets and liabilities should be entered on the Balance Sheet. Which should come first? Which should follow? Which should come last? And what is the reason for any particular order?

Different methods are in vogue in business. By one method, the Assets are stated in the *order of realizability*, that is, the order in which they can be converted into Cash; while the Liabilities are stated in the order in which they would be discharged, that is, paid off with the cash realized by the sale of the assets. The arrangement is then as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors . .		Cash	
Bills Payable . . .		Bills Receivable . . .	
Bank Loan		Sundry Debtors . . .	
Outstanding Expenses . .		Stock	
Income Received in Advance		Investments . . .	
Loan on Mortgages . .		Furniture and Fittings .	
Partners Current A/cs . .		Plant and Machinery . .	
Capital A/cs . . .		Land and Buildings . .	
		Goodwill . . .	
		Payments in Advance . .	

By another method, the Assets and Liabilities are stated in the *order of permanence*, the fixed assets and liabilities taking precedence of the floating assets and liabilities—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital A/cs . . .		Goodwill	
Current A/cs . . .		Patents and Trade-marks .	
Loans on Mortgage . .		Land and Buildings . .	
Bank Loan		Plant and Machinery . .	
Sundry Creditors . .		Horses, Carts, Vans, etc. .	
Accrued items . . .		Furniture and Fixtures .	
Bills Payable . . .		Investments . . .	
		Stock	
		Sundry Debtors . . .	
		Payments in advance .	
		Bills Receivable . . .	
		Cash	

The Balance Sheets of some commercial concerns, e.g. banks, partake of both methods, the Assets being stated in the Cash order, and the Liabilities in the order of permanence. Another variation is sometimes met with in practice. The floating assets and liabilities are marshalled first, but the Liabilities begin with the Creditors, and the Assets with the Debtors. Cash is sometimes placed next to the Bills Receivable, and sometimes last of all.

In the case of a bank the cash is put first as showing its stability—it being theoretically said that the first item strikes the eye most.

It must be borne in mind that there is no fixed lay-out for a Balance Sheet although, as will be seen later, legislation does require

that certain items shall appear as distinct and separate items. The actual order of the items is very much a matter of viewpoint of the accountants preparing it and the particular purpose it is to serve.

The three most recent developments as far as English accountants are concerned are (1) the insertion of the previous year's figures for comparison purposes, (2) the omission of the shillings and pence, and (3) the preparation of the Balance Sheet in an entirely new style.

Reference has already been made to the need for preparing a Balance Sheet with a view to giving information and also the necessity for keeping the position of a business reasonably liquid. It follows, therefore, that the ratio of the various types of assets to the total is important, whilst more vital still is the existence of a surplus of *Current Assets* over *Current Liabilities*. Such facts can be ascertained, given the time and opportunity, from the usual form of Balance Sheet, but they are somewhat obscured by the form in which it is drafted. As the information exists there seems every advantage in throwing it into relief, and a close study of the specimen on page 70 will well repay the student of accountancy.

Worked Examples. We now propose to give two exercises, one fairly easy and one more difficult, on the preparation of a Trading and Profit and Loss Account and Balance Sheet, and to show the full working. The student should not be content to follow the key mentally, but should actually work the exercise in his own books step by step with the key. He should then work and re-work the exercise without the assistance of the key, and should not pass on until he can do it accurately.

Example 1. From the following Trial Balance,[1] extracted from the books of J. & J. Robinson, prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date.

Charge Depreciation on Land and Buildings Account at $2\frac{1}{2}$ per cent, on Plant and Machinery Account at 10 per cent, and on Furniture and Fixtures at 10 per cent. Make a provision of 5 per cent on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts—

(1) Fire Insurance . . .	£12	7	2
(2) Rates and Taxes . . .	24	2	6
(3) Apprentice Premiums . .	40	–	–

Charge 5 per cent Interest on Capital, but not on Drawings. Profits and Losses are to be shared in the following proportions: James Robinson, five-ninths, Joshua Robinson, four-ninths.

The value of the Stock as on 31st December, 19.., was agreed at £2,939 9s. 3d. (*R.S.A.*)

[1] See page 71.

BLANK COMPANY LTD.

Balance Sheet as at 31st December, 19..

ASSETS				
Intangible Assets		£	£	£
Goodwill at cost		1,000		
Patents and Trade-marks at valuation at . . . . 19..		200	1,200	1,200
Fixed Assets				
	Cost	Depreciation	Net	
Land and Buildings	£8,000	2,000	6,000	
Plant and Machinery	4,000	1,000	3,000	
Fixtures and Fittings	1,300	1,050	250	
				9,250
Current Assets				
Stocks		1,360		
Sundry Debtors		480		
Bills Receivable		250		
Cash at Bank		650		
Cash in Hand		10		
			2,750	
Less **Current Liabilities**				
Sundry Creditors		1,000		
Expenses Outstanding		50		
Bills Payable		150	1,200	
Surplus of Current Assets over Current Liabilities				1,550
				£12,000
Representing Capital and Undistributed Profits				
Share Capital Authorized and Issued—10,000 Ordinary Shares £1 each fully paid			10,000	
Reserves				
General Reserve	500			
Profit and Loss A/c	1,500		2,000	12,000
				£12,000

TRIAL BALANCE

	Dr. £	s.	d.	Cr. £	s.	d.
James Robinson, Capital A/c				5,000	-	-
Joshua ,, ,, ,,				4,000	-	-
James ,, , Drawings ,,	437	10	-			
Joshua ,, ,, ,,	246	11	7			
Land and Buildings	2,500	-	-			
Plant and Machinery	1,426	17	7			
Furniture and Fixtures	125	8	4			
Carriage Inwards	437	1	4			
Wages (Manufacturing)	2,147	6	1			
Salaries	467	10	-			
Bad Debts Provision (as on 1st Jan., 19..)				247	6	2
Sales				9,122	16	9
,, Returns	176	2	7			
Bank Charges and Interest	14	4	6			
Coal, Gas, and Water	72	1	7			
Rates and Taxes	84	7	6			
Discount A/c (balance)				12	7	6
Purchases	4,216	17	2			
,, Returns				846	2	2
Bills Receivable	127	10	-			
Trade Expenses	49	7	9			
Sundry Debtors	3,781	15	9			
,, Creditors				1,217	15	1
Stock (1st Jan., 19..)	2,642	14	8			
General Expenses	149	1	5			
Fire Insurance	49	15	-			
Apprentice Premium				50	-	-
Cash at Bank and in hand	1,344	4	10			
	£20,496	7	8	£20,496	7	8

(1) Journal Entries for Adjustments

JOURNAL

19..		Dr. £	s.	d.	Cr. £	s.	d.
Dec. 31	Depreciation	217	14	7			
	To Land and Buildings				62	10	-
	2½% of £2,500.						
	To Plant and Machinery				142	13	9
	10% of £1,426 17s. 7d.						
	To Furniture and Fixtures				12	10	10
	10% of £125 8s. 4d.						
,, 31	Unexpired Fire Insurance	12	7	2			
	To Fire Insurance				12	7	2
	Transfer of amount prepaid.						
,, 31	Unexpired Rates and Taxes	24	2	6			
	To Rates and Taxes				24	2	6
	Transfer of amount prepaid.						

(1) Journal Entries for Adjustments

JOURNAL (*Contd.*)

		Dr. £ s. d.	Cr. £ s. d.
Dec. 31	Apprentice Premium	40 - -	
	To Unexpired Apprentice Premium.		40 - -
	Transfer of amount prepaid.		
" 31	Interest on Capital	450 - -	
	To James Robinson, Capital A/c .		250 - -
	5% on £5,000.		
	To Joshua Robinson, Capital A/c .		200 - -
	5% on £4,000.		

(2) Closing Entries

JOURNAL

			Dr. £ s. d.	Cr. £ s. d.
19.. Dec. 31	Trading A/c		8,669 18 8	
	To Stock (at commencement) .			2,642 14 8
	" Purchases .	£4,216 17 2		
	Less Returns .	846 2 2		3,370 15 -
	" Carriage Inwards . . .			437 1 4
	" Wages			2,147 6 1
	" Coal, Gas, and Water . .			72 1 7
	Balances transferred.			
" 31	Sales . . .	£9,122 16 9		
	Less Returns . .	176 2 7	8,946 14 2	
	Stock (at close)		2,939 9 3	
	To Trading A/c			11,886 3 5
	Balances transferred.			
" 31	Trading A/c (gross profit) . . .		3,216 4 9	
	Discount		12 7 6	
	Apprentice Premium.	£50 - -		
	Less Amount c/f .	40 - -	10 - -	
	Bad Debts, Old Provision	£247 6 2		
	Less New Provision	189 1 9	58 4 5	
	To Profit and Loss A/c . . .			3,296 16 8
	Balances transferred.			

(2) Closing Entries

JOURNAL (*Contd.*)

			Dr. £	s.	d.	Cr. £	s.	d.
Dec. 31	Profit and Loss A/c		1,445	11	1			
	To Salaries					467	10	–
	,, Bank Charges					14	4	6
	,, Trade Expenses					49	7	9
	,, General Expenses					149	1	5
	,, Fire Insurance	£49 15 –						
	Less Amount c/f	12 7 2				37	7	10
	,, Rates and Taxes	£84 7 6						
	Less Amount c/f	24 2 6				60	5	–
	,, Depreciation—							
	Land and Buildings					62	10	–
	Plant and Machinery					142	13	9
	Fixtures and Fittings					12	10	10
	,, Interest on Capital—							
	James Robinson					250	–	–
	Joshua ,,					200	–	–
	Balances transferred.							
,, 31	Profit and Loss A/c		1,851	5	7			
	To Capital A/c, Jas. Robinson, 5/9					1,028	9	9
	,, ,, ,, Josh. ,, 4/9					822	15	10
	Respective shares of profit transferred.							
,, 31	Capital A/c—James Robinson		437	10	–			
	To his Drawings A/c					437	10	–
	Balance transferred.							
,, 31	Capital A/c—Joshua Robinson		246	11	7			
	To his Drawings A/c					246	11	7
	Balance transferred.							

NOTE 1. As a distinction is made in the Trial Balance between Trade Expenses and General Expenses, the former may be debited to Trading Account. The student should provide a note explaining that such expenses have been assumed to be productive or manufacturing expenses.

NOTE 2. Instead of showing the Returns as deduction from the Purchases and Sales as above, some accountants prefer to transfer the Returns to the Purchases Account and Sales Account respectively. The transfers would be made by Journal entries, thus—

		Dr. £	s.	d.	Cr. £	s.	d.
Dec. 31.	Sales A/c	176	2	7			
,, 31.	To Sales Returns				176	2	7
,, 31.	Purchases Returns	846	2	2			
,, 31.	To Purchases A/c				846	2	2

TRADING ACCOUNT

For the Year Ending 31st December, 19..

Dr.	£ s. d.	£ s. d.	Cr.	£ s. d.	£ s. d.
To Stock (at start) .		2,642 14 8	By Sales .	9,122 16 9	
„ Purchases .	4,216 17 2		*Less* Returns .	176 2 7	
Less Returns .	846 2 2				8,946 14 2
		3,370 15 –	„ Stock (at finish) .		2,939 9 3
„ Carriage .		437 1 4			
„ Wages .		2,147 6 1			
„ Coal, Gas and Water .		72 1 7			
„ Balance (Gross Profit) .		3,216 4 9			
	£	11,886 3 5		£	11,886 3 5

PROFIT AND LOSS ACCOUNT

For the Year Ending 31st December, 19..

Dr.	£ s. d.	£ s. d.	Cr.	£ s. d.	£ s. d.
To Salaries .		467 10 –	By Trading A/c (Gross Profit) .		3,216 4 9
„ Bank Charges .		14 4 6	„ Discount .		12 7 6
„ Trade Expenses .		49 7 9	„ Apprentice Premium .	50 – –	
„ General Expenses		149 1 5	*Less* Amount c/f	40 – –	
„ Fire Insurance .	49 15 –				10 – –
Less Amount c/f	12 7 2		„ Bad Debts Provision .	247 6 2	
		37 7 10	*Less* New Provision, 5% £3,781 15s. 9d.	189 1 9	
„ Rates and Taxes	84 7 6				58 4 5
Less Amount c/f	24 2 6				
		60 5 –			
„ Depreciation— Land and Buildings, 2½% £2,500 .	62 10 –				
Plant and Machinery, 10% £1,426 17s. 7d.	142 13 9				
Furniture and Fittings, 10% £125 8s. 4d. .	12 10 10				
		217 14 7			
„ Interest on Capital— J. Robinson, 5% £5,000 .	250 – –				
Jos. Robinson, 5% £4,000 .	200 – –				
		450 – –			
„ Balance (Net Profit)— Jas. Robinson, 5/9	1,028 9 9				
Jos. „ 4/9	822 15 10				
		1,851 5 7			
		£3,296 16 8			£3,296 16 8

The tendency in modern practice is to show in a separate continuation of the Profit and Loss Account the adjustments (partners' salaries, if any, and interest on capital and/or drawings) and division of profits, but this again is a matter of choice on the part of the accountant concerned. (See page 79.)

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.	£ s. d.
Sundry Creditors .		1,217 15 1	Cash at Bank and in hand . .		1,344 4 10
Unexpired Apprentice Premium .		40 - -	Bills Receivable .		127 10 -
Capital A/cs—			Sundry Debtors .	3,781 15 9	
James Robinson, 1st Jan. .	5,000 - -		*Less* Bad Debts Provision . .	189 1 9	
Add Interest . .	250 - -				3,592 14 -
,, Share of Profit .	1,028 9 9		Stock-in-Trade .		2,939 9 3
			Furniture & Fixtures	125 8 4	
	6,278 9 9		*Less* Depreciation	12 10 10	112 17 6
Less Drawings .	437 10 -				
		5,840 19 9	Plant and Machinery	1,426 17 7	
Joshua Robinson, 1st Jan. . .	4,000 - -		*Less* Depreciation .	142 13 9	1,284 3 10
Add Interest . .	200 - -		Land and Buildings	2,500 - -	
,, Share of Profit .	822 15 10		*Less* Depreciation	62 10 -	
					2,437 10 -
	5022 15 10		Unexpired Fire Insurance . .		12 7 2
Less Drawings .	246 11 7				
		4,776 4 3	Unexpired Rates and Taxes . .		24 2 6
		£ 11,874 19 1			£ 11,874 19 1

Example 2. A and B were in partnership as Manufacturing Ironmongers. Their Capital Accounts, as on 31st December, 19.., were equal. The partnership agreement provided that A should take £300 of the profits before B received any share. The balance was to be divided equally between them. During the year ended 31st December, 19.., drawings were made by A at the rate of £50 a month, and by B at the rate of £6 a week.

On 31st December, 19.., the Ledger Balances, in addition to those of the Partners' Capital and Drawings Accounts, were as shown below.

On 31st December, 19.., the Stock in hand was valued and agreed at £6,928 4s. 6d., the Work in Progress was certified at £301 6s. 1d., and the Loose Tools at £406 13s. 2d.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date. Before preparing these accounts, it is necessary to take the following matters into consideration—

1. The Auditors called the Partners' attention to the fact that the Leasehold Premises had not been depreciated in the past. The lease has 15 years to run, and it is decided to write off the book value by equal annual instalments.

2. Ten per cent Depreciation is to be written off Plant and Machinery as on 1st January, and 5 per cent off the additions made during the year.

3. £50 depreciation is to be written off Furniture and Fittings.

4. Wages Account is found to include £47, paid to men who were occupied repairing machinery; and it is decided to transfer this amount to its proper account, and also to put through a transfer

of £121 2s. 7d. as representing the cost of material used out of stock for such repairs.

5. The unexpired portions of Rates and Insurance were, on 31st December, 19.., £27 2s. 3d. and £14 0s. 1d. respectively.

6. It is decided to create a Provision for Bad Debts amounting to 5 per cent on the Sundry Debtors.

NOTE. No interest on capital or drawings to be provided.

BALANCES OF LEDGER ACCOUNTS, 31ST DECEMBER, 19..

	£	s.	d.
Cash at Bank	280	2	8
,, in hand	37	15	2
Plant and Machinery (including additions during the year of £345 2s.)	4,018	2	1
Furniture and Fittings	273	14	7
Discount A/c (Debit Balance)	47	3	1
Manufacturing Wages	7,649	12	10
Salaries	962	13	6
Purchases	20,747	16	11
Carriage	467	4	9
Office Expenses	212	6	2
Postage and Stationery	42	15	1
Leasehold Buildings	1,500	–	–
Sales	34,242	12	7
,, Returns	347	13	7
Purchases Returns	742	12	–
Stock (1st Jan., 19..)	6,738	–	2
Sundry Debtors	9,261	12	6
Work in Progress (1st Jan., 19..)	276	14	11
Advertising	117	17	1
Bad Debts	135	2	7
Interest on Temporary Loan (repaid November)	6	7	10
Loose Tools (1st Jan., 19..)	431	14	2
Rent, Rates, and Taxes	346	15	3
Insurance	92	4	2
Commission	114	9	11
Lighting and Heating	102	4	7
Sundry Creditors	2,136	19	–

(*R.S.A.*)

(In a question such as the above, the student should, if time permits, prepare a Trial Balance.)

(1) Journal Entries for Adjustments

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19..							
Dec. 31	Depreciation	534	11	1			
	To Lease				100	–	–
	$\frac{1}{15}$ of £1,500						
	To Plant and Machinery				384	11	1
	10% £3,673 0s. 1d. = £367 6s., and 5% £345 2s. = £17 5s. 1d.						
	To Furniture and Fixtures				50	–	–
	Amounts written off respectively.						

(1) Journal Entries for Adjustments

JOURNAL (*Contd.*)

		Dr. £	s.	d.	Cr. £	s.	d.
Dec. 31	Repairs	168	2	7			
	To Materials Used for Repairs .				121	2	7
	,, Wages				47	–	–
	For repairs to machinery carried out by own workmen.						
,, 31	Unexpired Insurance . . .	14	–	1			
	To Insurance				14	–	1
	Balance carried forward.						
,, 31	Unexpired Rates	27	2	3			
	To Rent, Rates, and Taxes . .				27	2	3
	Balance carried forward.						

(2) Closing Entries

JOURNAL

		Dr. £	s.	d.	Cr. £	s.	d.
19.. Dec. 31	Trading A/c	35,521	11	9			
	To Stock				6,738	–	2
	,, Work in Progress				276	14	11
	,, Loose Tools				431	14	2
	,, Purchases . £20,747 16 11						
	Less Returns 742 12 –				20,005	4	11
	,, Manufacturing Wages . .				7,602	12	10
	,, Carriage				467	4	9
	Balances transferred.						
,, 31	Sales . . . £34,242 12 7						
	Less Returns . .347 13 7	33,894	19	–			
	Materials Used for Repairs . .	121	2	7			
	Stock	6,928	4	6			
	Work in Progress	301	6	1			
	Loose Tools	406	13	2			
	To Trading A/c				41,652	5	4
	Balances transferred.						
,, 31	Trading A/c	6,130	13	7			
	To Profit and Loss A/c . .				6,130	13	7
	Gross Profit transferred.						
,, 31	Profit and Loss A/c	463	1	8			
	To Provision for Bad Debts . .				463	1	8
	5% of Sundry Debtors £9,261 12s. 6d.						

(2) Closing Entries

JOURNAL (*Contd.*)

19..		Dr. £	s.	d.	Cr. £	s.	d.
Dec. 31	Profit and Loss A/c . . .	2,841	10	7			
	To Discount				47	3	1
	,, Salaries				962	13	6
	,, Office Expenses . . .				212	6	2
	,, Postage and Stationery . .				42	15	1
	,, Advertising				117	17	1
	,, Bad Debts				135	2	7
	,, Interest on Loan . . .				6	7	10
	,, Rent, Rates, and Taxes . .				319	13	-
	,, Insurance				78	4	1
	,, Commission				114	9	11
	,, Lighting and Heating . .				102	4	7
	,, Depreciation. . . .				534	11	1
	,, Repairs				168	2	7
	Balances transferred.						
,, 31	Profit and Loss A/c . . .	300	–	–			
	To A—Capital A/c . . .				300	–	–
	Preferential claim on profits.						
,, 31	Profit and Loss A/c . . .	2,526	1	4			
	To A—Capital A/c . . .				1,263	–	8
	,, B— ,, . . .				1,263	-	8
	Respective shares of profit transferred.						
,, 31	A—Capital A/c	600	–	–			
	To his Drawings A/c . . .				600	–	–
	Balance transferred.						
,, 31	B—Capital A/c	312	–	–			
	To his Drawings A/c . . .				312	–	–
	Balance transferred.						

TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Stock, 1st Jan. .		6,738 – 2	By Sales . .	34,242 12 7	
,, Work in Progress, 1st Jan.		276 14 11	*Less* Returns .	347 13 7	
					33,894 19 –
,, Loose Tools, 1st Jan. . .		431 14 2	,, Materials used for Repairs .		121 2 7
,, Purchases .	20,747 16 11		,, Stock, 31st Dec.		6,928 4 6
Less Returns .	742 12 –		,, Work in Progress, 31st Dec.		301 6 1
		20,005 4 11	,, Loose Tools, 31st Dec. .		406 13 2
Manufacturing Wages .	7,649 12 10				
Less Transfer to Repairs A/c . .	47 – –				
		7,602 12 10			
,, Carriage . .		467 4 9			
,, Balance (Gross Profit) c/d .		6,130 13 7			
	£	41,652 5 4		£	41,652 5 4

PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
To Discount		47 3 1	By Balance (Gross Profit) b/d		6,130 13 7
„ Salaries		962 13 6			
„ Offices Expenses		212 6 2			
„ Postage and Stationery		42 15 1			
„ Advertising		117 17 1			
„ Bad Debts		135 2 7			
„ Interest on Loan		6 7 10			
„ Rent, Rates, and Taxes	346 15 3				
Less Amount c/f	27 2 3				
		319 13 –			
„ Insurance	92 4 2				
Less Amount c/f	14 – 1				
		78 4 1			
„ Commission		114 9 11			
„ Lighting and Heating		102 4 7			
„ Depreciation— Lease, $\frac{1}{15}$ of £1,500		100 – –			
Plant and Machinery, 10% £3,673 0s. 1d.	367 6 –				
Plant and Machinery, 5% £345 2s.	17 5 1				
		384 11 1			
„ Furniture and Fixtures		50 – –			
„ Repairs— Materials used	121 2 7				
Wages paid	47 – –				
		168 2 7			
„ Provision for Bad Debts, 5% £9,261 12s. 6d.		463 1 8			
„ Balance (Net Profit) c/d		2,826 1 4			
		£6,130 13 7			£6,130 13 7
To A—Capital A/c as per agreement		300 – –	By Balance (Net Profit) b/d		2,826 1 4
„ Balance— A—Cap'l A/c, ½	1,263 – 8				
B— „ „ ½	1,263 – 8				
		2,526 1 4			
		£2,826 1 4			£2,826 1 4

Another method of adjustment is to transfer the £121 2s. 7d. (Materials used for Repairs) to the Purchases Account and state the amount net—also to set the £406 13s. 2d. against the £431 14s. 2d. (Loose Tools), showing a net figure of £25 1s. as "Consumption of tools," or "Tools used." Similarly, "Work in progress" is frequently adjusted with sales, and the item described as "Production."

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.	£ s. d.
Sundry Creditors .		2,136 19 –	Cash in hand .	37 15 2	
Capital A/cs—			Cash at Bank .	280 2 8	317 17 10
A—1st Jan., 19..	9,000 – –		Sundry Debtors .	9,261 12 6	
Add Share of Profit .	1,563 – 8		*Less* Bad Debts Provision .	463 1 8	8,798 10 10
	10,563 – 8		Stock . . .		6,928 4 6
Less Drawings .	600 – –	9,963 – 8	Work in Progress .		301 6 1
B—1st Jan., 19..	9,000 – –		Loose Tools . .		406 13 2
Add Share of Profit .	1,263 – 8		Furniture and Fixtures . .	273 14 7	
	10,263 – 8		*Less* Depreciation	50 – –	223 14 7
Less Drawings .	312 – –	9,951 – 8	Leasehold Buildings	1,500 – –	
			Less Depreciation	100 – –	1,400 – –
			Plant and Machinery . .	4,018 2 1	
			Less Depreciation	384 11 1	3,633 11 –
			Rates unexpired .		27 2 3
			Insurance unexpired . .		14 – 1
		£ 22,051 – 4			£ 22,051 – 4

SPECIAL POINTS TO WATCH IN EXERCISES

Period Covered by the Trading and Profit and Loss Account. This is a point that should be carefully noted by the student. If it is not definitely stated, it can usually be ascertained by comparing the dates of the Stock at start and the Stock at finish. Sometimes the rates for depreciation and the rate of interest on capital are stated to be *per annum*, and if the period covered by the Trading and Profit and Loss Account is only six months, i.e. for the half-year, such rates must be dealt with accordingly. The percentage for the Bad Debts Provision or Discount Provision, however, will not be affected. If these are given as 5 per cent, they will be 5 per cent (actual) of the Sundry Debtors, whether the Account is for six or for twelve months, the period of time making no difference to these particular items.

Adjustments in the Trading Account. Students who are accustomed to working exercises in which the whole of the adjustments affect merely the Profit and Loss Account, are often greatly disconcerted by an exercise which requires adjustments in the Trading Account. They get their Trading Account balanced and ruled off, and their gross profit brought down to the Profit and Loss Account, and towards the end of the exercise may discover some adjustments for the Trading Account. It is true such adjustments do not often occur, but they may. There may be Wages owing, Freight, Carriage, etc., due. Students should not take it

for granted that all the adjustments are for the Profit and Loss Account; they should look through them and make quite sure before balancing their Trading Account.

Interest on Capital. In some exercises interest on capital is not shown in the adjustments which are duly set out and numbered. It will be found mentioned in the reading matter either at the beginning or at the end of the exercise. Students are, therefore, apt to overlook it, and consequently bring out the wrong net profit and produce an inaccurate Balance Sheet.

Interest on Loan. Sometimes the Trial Balance in the exercise will contain the item, "Interest on Loan (for half-year)." If the period covered by the Trading and Profit and Loss Account is one year, then the other half-year's interest must be worked out and put in the Profit and Loss Account, whether it is mentioned in the adjustments or not, because a year's accounts must contain a year's interest if the loans have been outstanding for the year. The same of course applies to Debenture interest but not to dividends on shares.

Stock at Finish in the Trial Balance. This occurs only when there is a Materials Consumed Account in the Trial Balance or List of Balances. Its special treatment under such circumstances has been pointed out in our remarks on the contents of the Trading Account, to which the student should refer (page 33).

Bad Debts Not Written Off. In some exercises the Bad Debts have not been written off, and the student is told to do this. The student thinks it quite simple, and promptly puts them in the Profit and Loss Account. More often than not, however, he fails to complete the double entry by making a corresponding deduction from the Sundry Debtors, with, of course, disastrous effects on the accuracy of his work. For example, take the following Trial Balance (purposely condensed)—

TRIAL BALANCE	*Dr.*	*Cr.*
	£	£
Sundry debit balances	5,082	
,, Debtors	2,560	
,, credit balances.		7,642
	£7,642	£7,642

Suppose the Bad Debts not written off are £60, and that a Bad Debts Provision of 5 per cent is required to be made. The Bad Debts Provision would be 5 per cent of £2,500, and not 5 per cent of £2,560. In the Balance Sheet, therefore, we should have—

Sundry Debtors	£2,500	
Less Bad Debts Provision .	125	
		£2,375

not

Sundry Debtors	£2,560	
Less Bad Debts Provision .	128	
		£2,432

When the Bad Debts are written off, the Sundry Debtors will be reduced to £2,500, and this point seems to be quite unnoticed by the majority of students, who are greatly surprised when the Balance Sheet totals do not agree.

Depreciation. Sometimes Depreciation figures in the Trial Balance, a corresponding amount having already been written off some asset or assets. Students who have been accustomed to show the assets in the Balance Sheet, *less* depreciation, do so in this particular instance, and, of course, find subsequently that the Balance Sheet totals do not correspond. The asset, in this case, must be shown in the Balance Sheet at the same figure as it stands at in the Trial Balance; or, if it is desired to show the asset *less* depreciation, the depreciation must be *added back* again to the asset and then deducted. For example, take the following Trial Balance (purposely condensed)—

TRIAL BALANCE	*Dr.*	*Cr.*
	£	£
Sundry debit balances	7,206	
Plant and Machinery	1,350	
Depreciation of Plant and Machinery .	150	
Sundry credit balances		8,706
	£8,706	£8,706

The Depreciation of Plant would be transferred to the Profit and Loss Account, and the Plant and Machinery would be shown in the Balance Sheet thus—

Plant and Machinery . .		£1,350

or

Plant and Machinery . . .	£1,500	
Less Depreciation . .	150	
		£1,350

but not

Plant and Machinery . . .	£1,350	
Less Depreciation . .	150	
		£1,200

which is the mistake many students make. As the Depreciation appears in the Trial Balance it must have been written off the Plant and Machinery, for there could not be one-sided entries in the Ledger. The asset is, therefore, at its net figure and must not be further reduced.

Loose Tools. In engineering works, iron foundries, and similar concerns it is the practice to make their own loose tools. At balancing time stock is taken of these tools in the same way as stock of goods. The student will thus find in such exercises two stocks of Loose Tools, a Stock at start and a Stock at finish. These should be treated in the same way as Stock-in-Trade; the opening stock should be debited to Trading Account, and the closing stock should be credited to Trading Account and shown on the assets side of the Balance Sheet. The reason for this is that the materials for making the tools, and the cost of making them, i.e. the wages of workmen, have been debited to Trading Account, and any increase or decrease in the stock of tools should properly be dealt with in the same account. Alternatively, the difference between the two stocks of Loose Tools may be shown as Depreciation or Appreciation in the Profit and Loss Account.

ADJUSTMENTS AND THE BALANCE SHEET

Outstanding Liabilities. Numbers of students are constantly getting their Balance Sheet wrong on account of the adjustments. They must remember that items in the Trial Balance are dealt with only *once*, either in the Profit and Loss Account *or* in the Balance Sheet; but that items outside the Trial Balance, i.e. the adjustments to be made, are dealt with *twice*, both in the Profit and Loss Account *and* also in the Balance Sheet, in order to complete the double entry. For instance, Rent as an item in the Trial Balance would be debited to Profit and Loss and would then be finished with; but Rent as an item outside the Trial Balance, i.e. an adjustment to be provided for, would not only be debited to Profit and Loss Account, but would also be shown as Outstanding Rent on the Balance Sheet. The same item may, therefore, be treated differently in two different exercises. It does not, however, depend on the item itself, but on the *position* of the item, i.e. whether it is in the Trial Balance or List of Balances, or whether it is an adjustment outside it. Suppose we were told in an exercise to make a Journal entry for some Rent due, the Journal entry would be—

Rent	*Dr.*
To Outstanding Rent	*Cr.*

The Rent would be posted to the Rent Account, the total of which would be debited to Profit and Loss, while an Outstanding

Account would be opened in the Ledger and would appear on the liabilities side of the Balance Sheet. The point is that the double entry must still be made for all adjustments whether Journal entries are constructed for them or not. That is to say, debit Profit and Loss with the item and show the latter as Outstanding Rent in the Balance Sheet. Students must remember that charging Rent and other losses against profits does not pay them; they remain liabilities until they are paid in cash.

Apportionments. Likewise with the apportionments, i.e. the amounts prepaid, or received in advance, and carried forward to the next year; these must also be shown on the Balance Sheet. When losses are carried forward, as, for instance, unexpired insurance, rates, etc., they are put on the assets side of the Balance Sheet; and when profits are carried forward, as, for instance, unexpired apprentice premium, they are put on the liabilities side of the Balance Sheet. We do not make actual assets or liabilities of them. Losses carried forward come on the assets side simply because losses and assets are both debit balances. And profits carried over come on the liabilities side simply because profits and liabilities are both credit balances. The omission to use these adjustment figures twice over is so often a stumbling block in the examination room when neither Journal entries nor Ledger entries are called for. For this reason the examinee is strongly recommended to make his own notes similar to Journal entries but without dates or narrations, and rely on these as a guide. If, as each item is used, it is ticked as dealt with, the fact that the further adjustment still remains for the Balance Sheet will be obvious at a glance.

Common Errors. As in the intermediate stage the students' great difficulty is to make the Trial Balance agree, so also in the advanced stage their great difficulty is to make the Balance Sheet agree. The outstanding liabilities are frequently omitted, and the apportionments are either omitted or else placed on their wrong sides. The wrong Stock is often entered in the Balance Sheet. It should not be the Stock in the Trial Balance, but the Stock at finish. Sometimes the disagreement of the Balance Sheet totals is caused by the omission of the Stock-in-trade altogether. In other cases, the Balance Sheet will not agree because the wrong Bad Debts Provision has been deducted, namely, the old Provision instead of the new one, i.e. the one to be made; or else merely the amount debited or credited to Profit and Loss in order to adjust the two provisions has been shown as the actual Provision. For example—

PROFIT AND LOSS ACCOUNT

Dr.	£	£
To Bad Debts Provision (5% on £5,000)	250	
Less Old Provision	120	
		130

		£	£
and then in Balance Sheet—			
Sundry Debtors	. . . .	5,000	
Less Bad Debts Provision	. . .	130	
		——	4,870
instead of—			
Sundry Debtors	. . . . .	5,000	
Less Bad Debts Provision	. . .	250	
		——	4,750

which is the correct amount.

QUESTIONS

1. What are closing entries? How are the following accounts closed: (*a*) Personal accounts, (*b*) Real accounts, (*c*) Nominal accounts?
2. Explain the term "Balance Sheet." What information should it afford? How does it differ from a Trial Balance?
3. What controversy is there respecting (*a*) the form of the English Balance Sheet, (*b*) the headings "Dr." and "Cr.," and the words "To" and "By"?
4. What two methods are there of marshalling the assets and liabilities on a Balance Sheet? Illustrate your answer by means of *pro forma* examples. What variations are sometimes met with?
5. Why are outstanding liabilities included in the Balance Sheet in addition to being debited in the Profit and Loss Account or Trading Account?

EXERCISE II

1. Messrs. Brown & Phillips are equal partners in a business trading under the style of The Pimlico Cycle Co. On the 31st December their book-keeper extracted the following balances from the books—

Cash at Bank, £3,990; Plant and Machinery, £6,880; Stock of Machines, 1st Jan., £7,858; Materials on hand, 1st Jan., £2,730; Sales during the year, £188,680; Sundry Debtors, £6,556; Agents' Commission, £4,890; P. Brown, Capital Account, £5,358; R. Phillips, Capital Account, £4,900; Workmen's Wages, £26,798; Business Premises, £2,500; Bills Payable, £3,840; Cash Creditor, £4,000; Materials Purchased, £139,920; Sundry Creditors, £4,462; General Expenses, £720; Travellers' Salaries, £3,520; P. Brown, Drawings Account, £1,120; R. Phillips, Drawings Account, £900; Bad Debts written off, £958; Rents, Rates, and Taxes, £1,900.

The following adjustments are necessary—

5 per cent Depreciation off Plant and Machinery; one year's Interest due to Cash Creditor at 5 per cent per annum; Bad Debts estimated at £320; Commission due to Agents, £700; Interest on Capital at 5 per cent per annum. The Stocks on hand at 31st December were—

Materials, £1,860; Machines, £6,250.

Prepare Trial Balance, Trading and Profit and Loss Account, and Balance Sheet as at 31st December.

2. Messrs. Wolfe, Harvey & Co. are in partnership, sharing profits equally. On the 30th June the following balances stood in their books—

Lease of Premises (15 years to run), £3,000; Stock, 1st July, £9,262; Bills Payable, £6,902; Sundry Creditors, £11,224; Sales, £51,558; Discounts Received, £766; Purchases, £44,662; Bad Debts, £152; Advertising, £2,160; R. Wolfe, Capital Account, £23,120; T. Harvey, Capital Account, £19,570; Cash at Bank, £1,886; Rent, Rates, and Taxes, £1,396; Discounts Allowed, £1,082; Bills Receivable, £940; Salaries, £1,700; R. Wolfe, Drawings Account, £1,400; T. Harvey, Drawings Account, £1,300; Trade Expenses,

£1,098; Cash in hand, £100; Plant and Machinery, £10,656; Provision for Bad Debts, 1st July, £420; Wages (manufacturing), £6,838; Sundry Debtors, £25,928.

The following adjustments are necessary—

Interest on Capital at 5 per cent per annum; Bad Debts Provision, £500; Depreciation of Plant and Machinery at 5 per cent; Advertising paid in advance, £100; Rent, Rates, and Taxes owing, £290; Stock, 30th June, £19,514.

Prepare Trading and Profit and Loss Account for the year ending 30th June, and a Balance Sheet as at that date.

3. Messrs. Rice & Baxter entered into partnership on the 1st January with a Capital of £30,000, £20,000 of which was contributed by P. Rice and £10,000 by F. Baxter. It was agreed that profits should be shared in proportion to capital introduced, and the Drawings of the partners should be: Rice, £400, and Baxter, £200 per quarter on account of accruing profit. Should either partner draw more than the agreed amount, he was to be debited with not less than one quarter's Interest on the sum drawn in excess. Each partner was to be entitled to Interest on his Capital at 5 per cent per annum. A Bad Debts Provision of 2½ per cent of the Sundry Debtors was to be created.

The Stock at 31st December was valued at £12,857 0s. 10d.

From the above particulars and the following Balances, prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as at that date—

P. Rice, Capital A/c	£20,000	Trade Charges	£460
F. Baxter, ,, ,,	10,000	Sundry Debtors	17,078
Cash at Bank	2,418	Returns Outwards	1,756
,, on Deposit	1,000	P. Rice, Drawings A/c	1,600
Purchases	35,640	F. Baxter, ,, ,,	1,000
Sundry Creditors	3,920	Rent owing *Cr.*	160
Rent, Rates, and Taxes	700	Interest and Discount *Dr.*	270
Bills Payable	2,690	Salaries	1,200
Furniture and Fixtures	500	Returns Inwards	2,460
Sales	29,360	Bills Receivable	3,560

4. On the 30th June, Messrs. Lewis & Co. extracted the following Balances from their books—

P. Lewis, Capital A/c	£7,012	Cash in hand	£20
T. Smithers, ,, ,,	5,010	Petty Expenses	312
Wages of Workmen	5,340	Bad Debts	119
Gas and Electric Light	80	,, ,, added to Provision	100
Commission and Discount (*Dr.*)	420	Salaries	1,000
Debtors for Rent	50	Purchases	28,381
Bills Receivable	781	Sundry Creditors	6,245
Bills Payable	1,970	P. Lewis, Drawings A/c	1,000
Stock, 1st July	9,645	T. Smithers, ,, ,,	400
Freight and Carriage	158	Sundry Debtors	9,036
Sales	37,500	Rent, Rates, and Taxes	1,500
Bad Debts Provision	230	Travelling Expenses	364
Bank Overdraft	739		

Stock on hand 30th June was valued at £11,774 18s. 4d. Provide for Salary £300 to be credited to T. Smithers. Profits are to be divided—seven-twelfths to Lewis and five-twelfths to Smithers. Prepare Trading and Profit and Loss Account and Balance Sheet as at 30th June, after allowing Interest on Capital at 5 per cent per annum.

5. From the following Balances and the undermentioned particulars, prepare Messrs. Rocklyn & Co.'s Trading and Profit and Loss Account for the year ended 30th September, and a Balance Sheet as on that date—

Purchases	£18,682	R. Rocklyn, Capital A/c	£10,840
Bad Debts	196	,, Drawings A/c	800
Sales	49,240	P. Farmley, Capital A/c	10,306
Repairs and Renewals	1,140	,, Drawings A/c	700
General Expenses	920	Extension of Works	3,000
Coal and Coke	1,040	Rents Received	300
Sundry Debtors	9,300	Cash in hand	80
Travellers' Salaries and Commission	1,300	Rates and Taxes	760
		Cash at Bank	3,120
Discounts allowed	860	Clerks' Salaries	960
Trade Creditors	3,080	Wages of Workmen	6,338
Stock, 1st Oct.	7,960	Discounts Received	390
Plant and Machinery	7,000	Premises	10,000

Make a Bad Debts Provision of £460, a Discount Provision on Debtors of $2\frac{1}{2}$ per cent; credit Interest on Capital at 5 per cent per annum; depreciate Plant and Machinery 5 per cent. Stock on hand, 30th September, valued at £3,372. Profits and losses to be shared equally.

6. W. Price and E. Ackworth were in partnership as engineers. The Partnership Agreement provided that profits and losses were to be shared equally, and that 5 per cent interest was to be charged on Capital, but not on Drawings. On 31st March the Trial Balance was taken out. Prepare "Final Accounts" for the year ended 31st March, 19... The following adjustments must be made: (*a*) Depreciation—10 per cent off Plant and Machinery, etc. (*b*) Provide for Bad Debts, $2\frac{1}{2}$ per cent of Sundry Debtors. (*c*) Provide for a Quarter's Rent, £50. (*d*) Insurance unexpired on 31st March, 19.., £7 3s. 4d. (*e*) Stock, 31st March, 19.., £1,658 14s. 9d.

TRIAL BALANCE

Debits	£	s.	d.	*Credits*	£	s.	d.
Plant, Machinery, etc.	5,672	13	4	W. Price—Capital	5,696	10	–
Factory Fuel and Power	54	6	2	E. Ackworth—,,	3,626	3	4
Office Salaries	374	10	6	Sales	12,617	15	–
Lighting and Heating	39	5	7	Sundry Creditors	2,267	16	9
Travelling	92	6	7	Purchases Returns	317	6	7
Carriage on Sales	95	18	9	Bills Payable	642	3	4
Cash at Bank	112	6	6				
,, in hand	6	7	3				
Sundry Debtors	4,796	10	–				
Purchases	8,329	4	1				
Manufacturing Wages	991	9	10				
Rent, Rates, and Taxes	276	14	9				
Office Expenses	271	14	4				
Carriage Inwards	89	15	5				
Discount	42	7	9				
W. Price—Drawings	396	10	–				
E. Ackworth ,,	285	14	6				
Stock previous 31st Mar.	2,172	11	3				
Manufacturing Expenses	267	19	8				
Sales Returns	742	2	6				
Insurance	57	6	3				
£	25,167	15	–	£	25,167	15	–

(*R.S.A.*)

7. Messrs. Perry & Ruston are in partnership sharing profits three-fifths and two-fifths respectively. From the following Balances, and the undermentioned particulars, you are required to make out a Trading and Profit and Loss Account for the year ended 30th April, and a Balance Sheet as on that date.

Trade Creditors . . .	£3,578	Discounts Received . .	£580
Bills Payable . . .	1,870	Bills Receivable . . .	536
Law Charges . . .	42	Purchases	11,720
General Expenses . .	758	A. Perry, Capital A/c . .	9,280
Cash at Bank . . .	1,898	,, Drawings A/c .	800
B. Ruston, Capital A/c .	7,520	Stock, 1st May . . .	6,390
,, Drawings A/c .	600	Trade Debtors . . .	6,322
Premises	4,000	Carriage	358
Cash Creditor . . .	4,000	Returns Inwards . .	2,860
Returns Outwards . .	1,620	Salaries	1,570
Bad Debts Provision, 1st Mar.	220	Sales	21,360
Cash in hand . . .	40	Bad Debts	260
Discounts Allowed . .	860	Rent, Rates, and Taxes .	1,120
Wages (manufacturing) .	3,994	Plant and Machinery . .	5,900

The following adjustments are necessary—

Bad Debts estimated at £291; Discount Provision on Debtors, $3\frac{3}{4}$ per cent; on Creditors, $2\frac{1}{2}$ per cent; Interest on Capital, 5 per cent per annum; one year's Interest due to Cash Creditor, £160; Depreciation of Plant and Machinery, 10 per cent. Stock on hand at 30th April was £9,384.

8. Messrs. Kingsley & Larke are in partnership, sharing profits and losses two-thirds and one-third respectively. From the following Balances and the undermentioned particulars, prepare Trading and Profit and Loss Account for the year ended 31st July, and a Balance Sheet as at that date.

Freehold Premises . .	£4,000	Cash at Bank . . .	£3,940
Discounts Allowed . .	950	Stock, 1st Aug. . .	10,764
Trade Creditors . . .	6,994	Plant and Machinery . .	14,690
General Charges . .	1,370	Bad Debts	920
Wages (manufacturing) .	9,294	Patents	3,000
Bills Payable . . .	2,686	Cash in hand . . .	20
Rent, Rates, and Taxes .	3,500	Trade Debtors . . .	11,760
B. Kingsley, Capital A/c .	21,360	R. Larke, Capital A/c .	10,640
,, Drawings A/c .	1,940	,, Drawings A/c .	900
Bad Debts Provision, 1st Aug.	1,160	Salaries	2,520
Discount Received . .	520	Insurance	190
Sales	47,560	Purchases	21,162

The following adjustments are necessary—

Bad Debts Provision, £600; Interest on Capital, 5 per cent per annum; Depreciation: Patents, 10 per cent; Plant and Machinery, 10 per cent; Business Premises, £200; Frank Higgins, the works manager, is entitled to 5 per cent of the net profits.

The Stock on hand at 31st July was valued at £9,550.

9. Alfred Ramsden & Philip Brookes trade under the style of Ramsden, Brookes & Co. The following Balances were extracted from their books on the 30th June—

Trade Creditors . . .	£8,192	Salaries	£720
Freehold Premises . .	5,000	Stock, 1st July . . .	5,900
Discounts (*Dr.* balance) .	230	P. Brookes, Capital A/c .	6,860
A. Ramsden, Capital A/c .	12,300	,, Drawings A/c .	600
,, Drawings A/c .	1,200	Trade Debtors . . .	20,176

Rent, Rates, and Taxes	£860	Bills Payable	£3,800
Repairs	146	Bad Debts Reserve, 1st July	600
Bills Receivable	620	Sales	29,384
Purchases	17,182	General Expenses	852
Cash at Bank	1,120	Cash in hand	30
Wages of Workmen	2,940	Plant and Machinery	3,560

The following adjustments are necessary—

Bad Debts Provision, 5 per cent Debtors; Interest on Capital at 5 per cent per annum; Depreciation of Plant, 10 per cent per annum.

Stock on hand at 30th June was valued at £2,498. Profits are divisible equally.

Make the necessary closing entries and prepare Trading and Profit and Loss Accounts, and Balance Sheet as at 30th June.

10. The following are the Ledger Balances of A, B, C, & Co., as on 31st December—

Sundry Debtors	£6,000	Sales		£25,000
General Trade Expenses	1,200	Sundry Creditors		1,000
Factory Rent	250	Interest Received		120
Manufacturing Wages	2,000	Purchases Returns		200
Purchases	10,000	Discounts Received		180
Fixtures and Fittings	500	Provision for Bad Debts		200
Carriage and Freight on Raw Material	500	A. Capital A/c	*Cr.*	10,000
Sales Returns	300	B. ,, ,,	*Cr.*	10,000
Horses, Harness, and Vehicles	2,000	Plant and Machinery		6,000
Advance on Mortgage *Dr.*	2,000	Freehold Offices		2,000
Travelling Expenses	600	Balance at Bank		2,300
Office Salaries	2,200	Cash Balance		10
A. Drawings	1,000	Stock, 1st Jan.		5,000
B. ,,	1,000	C. Capital A/c	*Dr.*	1,000
C. ,,	500	Discounts Allowed		220
		Rates, Taxes, and Insurance		120

Prepare—

(1) Trading Account, showing gross profit for the year.

(2) Profit and Loss Account, showing net profit available for division among the partners.

(3) Balance Sheet as on 31st December, 19..

Stock on hand on 31st December, 19.., amounted to £7,500. According to the Partnership Deed 5 per cent Interest on Partner's Capital is to be credited or charged, as the case may be, and the profits are to be divided as to A two-fifths, B two-fifths, C one-fifth.

Write off 5 per cent from Plant and Machinery.

Write off 10 per cent from Horses, Harness, Vehicles, and Fixtures and Fittings. Increase the Provision for Bad Debts by £400. (*Civil Service.*)

11. Robert Poole and Frederick Winchley entered in partnership on 1st October, under the style of Poole & Co. The following Balances (except one) were obtained from their books at 30th September, after the first year's trading—

Sundry Debtors, £7,360; R. Poole, Drawings Account, £800; F. Winchley, Drawings Account, £800; Stock, 30th September, £4,900; Salaries, £940; Carriage, £450; Discounts Received, £720; Purchases, £26,720; Commission, £660; Plant and Machinery, £9,252 (after charging Depreciation, £1,026); Freehold Premises, £3,000; Trade Creditors (including Bills Payable, £1,500), £7,704; Cash at Bank, £1,180; Discounts Allowed, £1,064; Rent, Rates, and

Taxes, £1,660; Wages of Workmen, £5,480; General Expenses, £872; Travelling Expenses, £520; Goods sold, £35,360.

Draw up a Trial Balance (bringing into account the Capital, which the partners contributed equally), and prepare Trading and Profit and Loss Account, and Balance Sheet as at 30th September, after allowing Interest on Capital at 5 per cent per annum.

12. From the following Ledger Balances prepare Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. H. Oakley and W. Denham, Harness Manufacturers, as on 31st December, sharing profits and losses equally. Before dividing the profits, allow Interest on Partners' Capital at 5 per cent per annum; depreciate Machinery and Plant 7½ per cent, and Fixtures and Fittings 6 per cent; provide for Bad and Doubtful Debts 5 per cent, and for a half-year's interest on the Mortgage at 5 per cent per annum to 31st December; carry 7½ per cent of the net profit (if any) to the Reserve Fund; Stock 31st December, £14,725 2s. 6d.

	£	s.	d.		£	s.	d.
H. Oakley, Capital A/c (1st Jan.)	10,000	–	–	Stock (1st Jan.)	10,910	5	5
W. Denham, Capital A/c (1st Jan.)	9,000	–	–	Rates and Taxes	251	9	11
Freehold Premises	13,100	–	–	Bank *Cr.*	2,437	–	–
Bills Payable	2,402	8	2	Office Expenses	104	5	3
Fixtures and Fittings	3,600	–	–	Carriage	1,066	2	9
Wages	7,930	1	4	Insurance	191	11	4
Mortgages on Premises *Cr.*	4,500	–	–	Interests and Discounts *Cr.*	43	12	1
Sundry Creditors	13,802	18	4	Sundry Debtors	8,510	–	–
Reserve Fund (for contingencies)	1,050	–	–	Interest on Mortgage	112	10	–
Sales	45,230	2	10	General Trade Expenses	1,040	17	2
Machinery and Plant	6,000	–	–	Repairs	337	13	1
Cash	472	14	7	H. Oakley's Drawings A/c (including interest)	1,767	10	–
Purchases	31,038	10	7	W. Denham's Drawings A/c (including interest)	1,482	10	–
Salaries	550	–	–				

(*Union of Educational Institutions.*)

13. H. Shepherd and G. Elkington entered into co-partnership as Builders and Contractors at Northampton on 1st January. Elkington's capital was £1,000, Shepherd's was £4,000. Profits or losses were to be shared equally. 5 per cent was to be credited to each Partner in respect of his capital, and 5 per cent was to be charged on their respective drawings. Elkington was to be credited with £25 each quarter as salary for management. The following is a copy of the Ledger Balances of their books on 31st December, but no interest has been charged either upon the capital or upon drawings, nor had Elkington been credited with his salary.

The Stock was taken and amounted to £3,750. The drawings of the partners had been as follows: Shepherd, 1st February, £50; 1st April, £100; 1st June, £50; 1st August, £50; 1st October, £100; 1st December, £50; Elkington, 1st February, £25; 1st March, £37 10s.; 1st May, £62 10s.; 1st June, £50; 1st August, £25; 1st September, £37 10s.; 1st November, £62 10s.; 1st December, £50.

	£	s.	d.		£	s.	d.
Sales	9,756	10	7	Interest and Discount *Dr.*	250	3	7
Purchases	3,857	6	6	Salaries	457	10	–
Cash	365	2	11	Wages	1,304	2	6
Bills Payable	421	3	4				

	£	s.	d.		£	s.	d.
Creditors . . .	1,062	7	1	Carriage and Freight .	255	4	7
Rent . . .	525	7	6	Repairs and Depreciation . . .	212	5	7
Bank . . *Cr.*	664	19	9	Plant and Tools . .	1,437	14	5
Taxes and Insurance .	224	12	6	Shepherd's Drawings .	400	–	–
General Charges .	108	2	2	Elkington's ,, .	350	–	–
Buildings . . .	2,500	–	–	Debtors . . .	4,657	8	6
Shepherd's Capital .	4,000	–	–				
Elkington's ,, .	1,000	–	–				

Prepare a Trading Account, Profit and Loss Account for the year, and Balance Sheet, giving effect to the respective partnership terms as to Interest on Capital and Drawings, Partners' Salary, and division of Profits and Losses.

(Union of Educational Institutions.)

14. The Bad Debts Provision on 1st January was £725 15s. 6d. The Bad Debts during the year amounted to £630 10s. 6d. The Sundry Debtors on 31st December are £16,368 16s. 3d., and a new Provision of 5 per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries.

15. The Bad Debts Provision on 1st January was £268 16s. 7d. The Bad Debts during the year amounted to £62 15s. 10d. The Sundry Debtors at 31st December are £3,826 13s. 6d., and a new Provision of 5 per cent is required. Make (both ways) the necessary Journal entries, and show the Ledger Accounts, the Profit and Loss Account, and Balance Sheet.

16. The Bad Debts Provision on 1st January was £56 10s. 6d. The Sundry Debtors at 31st December are £1,026 8s. 10d. There were no Bad Debts during the year, and so it is decided to abolish the Provision. Make the necessary entries (both ways) in the Journal, and show the Ledger, Profit and Loss Account, and Balance Sheet.

17. The Sundry Debtors on 31st December are £4,361 10s. 11d. A Bad Debts Provision of 5 per cent is made, and a Discount Provision of 5 per cent is required. The Discounts Allowed during the year amounted to £163 17s. 8d., and there was an Old Discount Provision of £175 15s. 6d. Make (both ways) the necessary entries relating to discount in the Journal, Ledger, Profit and Loss Account, and show the Balance Sheet.

18. On 1st January the Provision for Discount on Creditors was £120 10s. 6d. The Discounts Received during the year amounted to £110 16s. 6d. The Creditors on 31st December are £4,947 17s. 5d., and a new Provision of $2\frac{1}{2}$ per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

19. On 1st January the Provision for Discount on Creditors was £160 13s. 6d. The Discounts Received during the year amounted to £187 16s. 5d. The Creditors at 31st December are £6,626 10s. 11d., and a new Provision of $2\frac{1}{2}$ per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

20. Show the necessary Ledger entries to describe the following—

(*a*) Jan. 1. Bad Debts Provision of £860 standing in the books.

(*b*) Dec. 31. Total of Bad Debts Account, £1,000.

(*c*) ,, 31. Adjust the Provision Account so that it may show a Reserve of $7\frac{1}{2}$ per cent on the Book Debts, which are £15,000.

(*d*) Assuming that business has been continued for another twelve months, i.e. up to 31st December, the Bad Debts are then £1,100. Adjust the Provision, so that it may show a provision of $7\frac{1}{2}$ per cent on the amount of the Book Debts, which are then found to be £12,674.

21. Prepare Final Accounts of John Combine, steel merchant, on 31st December. Stock, at 31st December, valued at £3,500. Write off £400 Bad Debts, and maintain a Provision of 5 per cent on the remaining debtors' balances to allow for doubtful debts. Depreciate Plant 10 per cent. Allow interest on Capital at 5 per cent per annum. Combine introduced an extra £500 capital on 1st December

Stock	£9,600	Returns In	£100
Wages	3,200	Sundry Debtors	3,500
Railway Charges, etc.	500	Office Expenses	500
Purchases	12,000	Income Tax	50
Interest on Overdraft	20	Drawings as against Profits	500
Bills Receivable	600	J. Combine, Capital	5,000
Rents, Rates, etc.	200	Bills Payable	500
Plant and Machinery	2,000	The Consolidated Bank *Cr.*	400
Travelling Expenses	500	Sales	25,000
Repairs to Plant	160	Provision for Bad Debts	500
Cash	200	Discount on Purchases	400
Discount on Sales	500	Sundry Creditors	2,330

22. The books of Black & White, who are equal partners, are balanced yearly as on 31st December. Before profits are ascertained and divided, 5 per cent interest is allowed upon Partners' Capital. Depreciation at the rate of 5 per cent is written off the Plant Account, and a provision of 5 per cent is made for Bad and Doubtful Debts. One year's interest, at the rate of $4\frac{1}{2}$ per cent, is due upon the Loan on Mortgage, and has not yet been passed through the books. The Stock on hand, as on 31st December, was valued at £3,225.

The following are the final Balances as on 31st December—

Purchases	£16,450	Trade Charges	£400
Manufacturing Wages	2,150	Premium on Lease A/c (6 years unexpired as on 1st Jan.)	2,400
Sales	24,800	Sundry Creditors	15,345
Black's Capital A/c	5,000	Loan on Mortgage	5,000
,, Drawings A/c (including Interest)	550	Freehold Land and Buildings	8,000
White's Capital A/c	2,000	Plant	4,000
,, Drawings A/c (including Interest)	350	Provision for Bad and Doubtful Debts (as on 1st Jan.)	600
Stock (as on 1st Jan.)	3,000	Sundry Debtors	13,100
Salaries	820	Cash at Bank	1,200
Rates and Taxes	325		

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

23. What is a Balance Sheet? Explain the difference between that and an ordinary Statement of Affairs. (*London Chamber of Commerce.*)

24. Messrs. Slander and Backbite own a small newspaper. Profits and losses are equally divided. Before the division of Profits, the following adjustments are necessary: 10 per cent Depreciation is to be written off Plant Account; 20 per cent off Type Account, and 10 per cent off Horses and Carts Account; 5 per cent provision is to be made for Bad and Doubtful Debts; Six Months' Interest at 5 per cent is due upon the Bank overdraft, and has not yet been passed through the books.

Stock as on 31st December was valued at £381.

No interest is allowed upon Partners' Capital Accounts, Backbite's smaller

capital being compensated for by the fact that he gives more time to the business than his partner.

The following were the Ledger Balances of the firm as on 31st December—

Expenses of Branch Office	£129	Trade and Sundry Expenses	£82
Insurance	34	Cost of Literary Contributions	898
Rates, Taxes, and Gas	50	Commissions Paid	152
Postages	182	Stable Expenses	121
Carriage	264	Ink Purchases	88
Bad Debt Provision (1st Jan.)	430	Machine and Engine Room Expenses	242
Sales and Subscriptions (Newspaper Department)	4,852	Audit Fee	52
Sales (Jobbing Dept.)	848	Law Charges	124
Advertisements (Receipts)	5,540	Bad Debts	142
Compositors' Wages	2,035	Freehold Printing Works	4,950
Reporters' Salaries	798	Additions to Freehold Premises during the year	150
Paper Purchases	2,220	Plant and Machinery	4,400
Office Salaries	748	Type	2,900
S. Slander's Capital A/c	9,864	Stock (1st Jan.)	342
,, Drawings A/c	1,040	Horses and Carts	194
B. Backbite's Capital A/c	7,540	Sundry Debtors	8,440
,, Drawings A/c	952	Cash in hand	457
Trade Creditors	862	Bank Overdraft	1,500
Advertisements Paid in Advance A/c	750		

Prepare a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. *(London Chamber of Commerce.)*

25. The books of Messrs. William Jones & Co. were balanced as on 31st December, and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2,481 6s. 4d. The following mistakes had been made by the book-keeper during the year—

(*a*) A gas engine costing £450 had been debited to "Purchases Account" instead of to "Machinery and Plant Account."

(*b*) An amount of £15 12s. 8d., received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly-opened account under the same name, and was included amongst the "Sundry Creditors" in the Balance Sheet.

(*c*) A cheque amounting to £10 4s. 8d., which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of to the account of B. Brown, from whom it was received.

(*d*) Goods amounting to £52 1s. 4d. had been returned by R. Robinson, on 30th December, and were taken into stock, but the entries recording the return were not passed through the firm's books until 4th January of next year.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit? *(London Chamber of Commerce.)*

26. Wilkinson & Co., publishers, publish a book, of which 3,000 copies are printed. They pay all expenses, and give the writer a royalty of 1s. on every copy *sold*. The cost of the book, which was paid by Wilkinson & Co., and charged in their books to the accounts named, was as follows—

Printing	£100
Paper	70
Binding	100
Advertising	30

At the end of the first year it was found that 100 copies had been given away. and 2,000 sold at a net price of 5s. each, and Wilkinson & Co. sent the author a detailed statement of accounts for the year, with cheque for the royalty due to him. Make the Journal entries that Wilkinson & Co. would make on drawing up this account, and show (1) What profit (*a*) the author, and (*b*) the publishers have made on the first year's sales; (2) What profit they would respectively make on the next year, assuming that the copies remaining in stock were all sold at the same price, and no further charges incurred. (*Civil Service.*)

27. The following balances were, on 31st December, extracted from the books of H. Francis, who carried on business as a manufacturing stationer—

	£	s.	d.		£	s.	d.
H. Francis, Capital A/c	10,000	–	–	Loan from E. A. Francis	1,000	–	–
Furniture and Fittings	342	1	7	Office Salaries	427	12	–
Land and Buildings	2,171	13	1	Purchases	13,271	14	8
Drawings	420	–	–	,, Returns	97	7	7
Cash at Bank	242	16	5	Stock (1st Jan.)	4,017	2	1
,, in hand	14	11	2	Plant and Machinery	1,442	12	1
Sales	18,767	1	1	Provision for Bad and Doubtful Debts	310	7	6
,, Returns	124	14	11	Sundry Creditors	1,242	14	11
Carriage	345	1	7	Manufacturing Charges	271	12	1
General Expenses	241	2	2	Rates and Taxes	242	–	1
Manufacturing Wages	3,124	17	2	Sundry Debtors	4,382	14	11
Discounts allowed	263	12	–	Bad Debts	92	12	2
,, received	199	7	9	Insurance	47	6	3
Bank Charges, etc.	7	8	8				
Bills Receivable	123	13	9				

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and Balance Sheet as on that date, after taking into consideration the following—

(1) 10 per cent depreciation is to be written off Plant and Machinery.

(2) A new machine had been installed in November, at a cost of £250, but was not paid for; and no entries had been put through the books.

(3) 10 per cent depreciation is to be written off Furniture and Fittings.

(4) Instructions were given to charge out the Stationery taken out of Stock during the year, for use in the business, at £47 8s. 2d., but this had not been recorded in the books.

(5) The Provision for Bad and Doubtful Debts is to be made up to £500.

(6) The unexpired insurances amounted, on 31st December, to £12 4s. 2d.

(7) £12 was due on 31st December for interest on the loan from E. A. Francis, and had not been put through the books.

The Stock on 31st December was valued at £4,247 6s. 6d.; and on that date Bills Receivable, not yet due, to the amount of £117 had been discounted.

(*London Chamber of Commerce.*)

28. The "Rent and Rates" Account in the Ledger of Riley Brothers showed that on 31st December, 1948, the rent for the quarter to Christmas was outstanding, and that the rates for the half-year ending 31st March, 1949, amounting to £76 7s. 6d. had been paid. During the ensuing year the following payments relating to rent and rates were made—

		£	s.	d.
Jan. 4.	Rent for Christmas quarter	90	–	–
Mar. 29.	,, ,, Lady Day ,,	90	–	–
June 26.	Rates for half-year ending 30th September, 1949	74	14	8
July 7.	Rent for Midsummer quarter	90	–	–
Sept. 30.	,, ,, Michaelmas ,,	90	–	–
Dec. 28.	,, ,, Christmas ,,	90	–	–

The rates for the half-year ending 31st March, 1950, which amounted to £80 17s. 10d., were paid on 6th January, 1950.

You are required to show the "Rent and Rates" Account as it would appear after the books for the year ended 31st December, 1949, had been closed. Make any calculation in months. (*R.S.A.*)

29. A Limited Company makes up its accounts annually to 30th June, and shows rent and rates as one item in the Profit and Loss Account.

The rent is £2,000 per annum, payable quarterly, and the payments during 1948–49 were as follows—

Rent for quarter to—

30th June, 1948	Paid 10th July, 1948
30th September, 1948	,, 27th September, 1948
31st December, 1948	,, 6th January, 1949
31st March, 1949	,, 24th March, 1949
30th June, 1949	,, 28th June, 1949

The rates for the half-year to 30th September, 1948, amounted to £590, and were paid on 15th May, 1948; for the half-year to 31st March, 1949, the amount was the same and was paid on 10th November, 1948; for the half-year to 30th September, 1949, the amount was £610, paid on 20th May, 1949.

Show the Rent and Rates Account as it would appear in the Company's Ledger for the year to 30th June, 1949.

30. James Thompson took over the business of an Iron Ore proprietor, the lease of the mines having fifteen years to run, on 1st January, and carried on the business for six months.

Make up his Profit and Loss Account and Balance Sheet from the following figures without taking account of interest upon Capital, but providing for the wasting of the Lease, and writing off depreciation, at the rate of 5 per cent per annum from Machinery and Plant, providing £445 for bad debts, and allowing a discount of 2½ per cent from the Debtors and Creditors.

James Thompson, Capital	£20,000	Rent, Rates, and Taxes	£2,330
,, ,, Withdrawals	800	Bank Charges	200
Machinery and Plant	3,522	Discounts allowed	850
Ore Sales	36,700	Royalty	5,000
Cash at Bankers	5,709	Lease	16,500
,, on hand	9	Coals	1,260
Allowances and Returns	500	Sundry Debtors	6,300
Salaries	939	Candles and Oil	390
Wages	12,684	Repairs	360
Discounts received	75	Powder	372
Damages for breach of contract	100	Office Furniture	100
		Carriage and Freight	913
Unpaid Wages	286	Stock, 1st January	4,850
Sundry Creditors	8,000	Ropes used	53
Unexpired Insurances	40	Timber used	1,280

The Stock at 30th June amounted to £5,000. (*Chartered Accountants.*)

CHAPTER III

THE CORRECTION OF ERRORS

IN the main this question quite naturally divides itself into four sections—

1. One-sided errors.

2. Errors which are found and are corrected during the course of the financial year and before the books are closed.

3. Those which cannot be found at balancing time but are revealed and require adjustment in a subsequent trading period.

4. Entries for closing the books and for adjustments at the year end.

One-sided Errors. It stands to reason that if only one side of a double entry is at fault, no effort at correcting it by means of a further double entry can be of any avail. Assume for example that an amount of £25 11s. 1d. cash received has been correctly entered in the Cash Book but that the Ledger Account concerned has been credited with £25 1s. 11d. It is obvious that the debtor requires additional credit for 9s. 2d. but as the Cash Book is quite in order the only way by which this error can be corrected is by *altering* the Ledger. The important point to appreciate is that if, *before* the error is found, the books have been balanced and the difference on the Trial Balance temporarily disposed of by a one-sided entry in a Suspense Account in the Ledger, the problem of correction is in an entirely different category. This is dealt with under heading number 3. More often than not the examinee gets into difficulties through failing to read the question carefully. As an instance of this, consider the following extract from an examination paper.

"The following errors were made in the books of a Company during the year ended 3rd June—

(*a*) A sale to A B of £15 was correctly entered in the Sales Day Book, but was posted to the Sales Ledger as 15s.

(*b*) Goods returned to C D value £10 were entered in the Purchases Day Book and posted to the debit of C D in the Purchases Ledger.

(*c*) A Company owed £20 to A L (who appeared in the Purchases Ledger as a creditor for this amount), which was duly paid less 5 per cent discount. The payment made was assumed to be a cash purchase and was entered and posted as such.

Correct these errors by means of Journal entries (with full narrations) *as far as possible*. No Ledger Accounts are required."

The secret lies in the words in italics which so many examinees either fail to read or fail to appreciate.

The first two of these three questions cannot possibly be corrected by Journal entries, unless of course we are informed by the examiner that the correction is being made in a subsequent trading period, in which case a Suspense Account will be in use.

Before we pass on to consider the other kinds of errors and their correction, there is one other type of question about which the student might be warned so that he may be prepared to meet it. This type of question is the one which definitely requires a Journal entry for the purpose of making correction but does not give sufficient information to enable the *amount* to be entered. In this case the student should make the Journal entry so far as the wording and narrations are concerned and then either leave the money columns blank or show by means of a note in the money columns that the figures cannot be inserted.

To illustrate this, let us take the following question.

Example. Correct the following error by means of a Journal entry—

A half-year's interest on a Mortgage of £1,000 was paid to the Company, but tax was deducted from the interest at 8s. in the £, instead of at 7s. 6d. in the £.

As the rate of interest is not stated the amount cannot be entered in the Journal and the solution would be—

JOURNAL

	Dr. £ s. d.	Cr. £ s. d.
Borrower	—	
To Income Tax A/c		—
Being excess tax deducted of 6d. in the £, tax being deducted at 8s. instead of 7s. 6d. by the mortgagee (rate of interest not specified).		

Errors of Omission, Commission or Principle, Found and Corrected during the Course of the Year. These errors are by far the most common, being the result of bad posting or an insufficient knowledge of theory.

The student will have dealt with this type of Journal entry in his elementary work and is advised to spend some time in revision with a view to testing his knowledge. A few examples of the more unusual type of question may be of assistance.

Example 1. Goods taken by the Proprietor for his private use. The entry will be

Drawings *Dr.*
To Purchases A/c

and not to Sales Account.

The reason for not making the credit to the Sales Account is that it is customary for the proprietor to pay the cost price and not the selling price.

Example 2. A Sales Return entered in the Purchases Day Book. There are two alternative solutions to this question. In the first case two entries will be required, the first to cancel the error and the second to record the correct transaction—

Customer *Dr.*
To Purchases A/c
Sales Returns *Dr.*
To Customer

and the alternative would be—

Sales Returns *Dr.*
To Purchases A/c

Example 3. Discount taken in excess by a customer and disallowed.

Assuming that the customer were entitled to £2 4s. 4d. representing $2\frac{1}{2}$ per cent and deducted £3 6s. 6d. being $3\frac{3}{4}$ per cent. If the £3 6s. 6d. is entered in the discount column of the Cash Book then an adjusting Journal entry would be—

		£ s. d.	£ s. d.
Customer .	*Dr.*	1 2 2	
To Discount A/c			1 2 2

The alternative would be of course to enter only £2 4s. 4d. in the Cash Book so that this, together with the cheque, will show a short payment.

Those which Cannot be Found at Balancing Time, but are Revealed, and Require Adjustment, in a Subsequent Trading Period. This is by far the most important section in view of the fact that questions of this nature are being set quite regularly in the intermediate professional examinations.

The student must appreciate the circumstances by considering what was done at the close of the previous year. It is true that with the advent of self-balancing Ledgers and mechanical accounting

an error should not remain undetected, but the books in many businesses are not kept on such modern lines. It is also true that given sufficient time all errors can be found, but it is obvious that unless the final accounts are produced within a reasonable period after the close of the year they are of little value to the proprietors.

The position, then, is that a Trial Balance refuses to yield to our search and the books must be *made* to balance in order to proceed with the Trading and Profit and Loss Account and Balance Sheet.

This is done by making a *single entry* in the Ledger for the shortage in a special account opened for the purpose and headed either as "Suspense Account" or "Difference in Books Account." The effect of this can be seen more clearly if we consider an example.

Let it be assumed that during 1947 the Sales Day Book for the month of May has been short-cast by £100 and that the total of the discount column on the debit side of the Cash Book for August has not been posted, the amount being £25. As a result of this the Trial Balance will be £100 short on the credit side and £25 short on the debit side. To make the books balance an entry is therefore made as follows—

Dr. SUSPENSE *Cr.*

			1947 Dec. 31	By Difference in books . .	£ 75

During 1948 the first of these two errors is found, but as the accounts for 1947 cannot be re-opened, the Sales Account for 1948 must benefit by having the credit for £100. As this is one of the errors represented by the £75 net difference the double entry will be completed by a debit to the Suspense Account. This corrects the Sales Account and now leaves a debit balance on the Suspense Account of £25 waiting for the next error to be revealed. When this second mistake is found, the same argument holds good. The Discounts Allowed Account being closed for 1947, the 1948 account must suffer this debit of £25 instead and the credit to the Suspense Account to complete the double entry will then close that Account. This leads us to rather an important fact. From the example given it will be seen that so long as there is a balance on the Suspense Account there are still some errors not found. It also makes it plain that whatever account requires to be debited or credited to correct the error of the previous year, the other side of the Journal entry is *always* to the Suspense Account. Once this is clear there should be no difficulty at all in dealing with these corrections.

One other important point to bear in mind is that in some cases the entry required to make the correction will need to be for

an amount twice the size of the error. Supposing, for example, a sale for £10 is posted to the *Credit* of the customer's account. This will mean that the Trial Balance will not only have £10 short on the debit side but it will have £10 too much on the credit side with the result that the difference will be £20, and that is the amount which will be in the Suspense Account. When the error is found, it follows that in order to convert the credit item for £10 into a debit the customer's account will need a debit for £20. The Journal item will therefore be—

JOURNAL	*Dr.*	*Cr.*
	£	£
Customer	20	
To Suspense A/c		20
Being the correction of an error caused by the posting of a sale for £10 to the credit of the customer's a/c.		

This is a rather lengthy narration, but it is somewhat difficult to explain the circumstances more briefly, it being *essential* for the narration to explain the entry sufficiently clearly for it to be easily understood by a person having no knowledge of the circumstances.

A fully worked example, if followed carefully, should clear up any difficulties the student may have in connexion with the correction of errors by a Journal through a Suspense Account.

Example. The Trial Balance of the books of a company, taken out as on 31st July, 19. ., did not balance, and a Suspense Account was opened in which the difference was entered.

A detailed checking of the books disclosed the following errors—

(*a*) Purchases Returns for April, £100, posted to the debit of Purchases Account.

(*b*) Sales Day Book for May under-cast by £10.

(*c*) Discounts received in June, £120, posted to the wrong side of Discount Account.

(*d*) A sale of £10 5s. to J B was correctly entered in the Sales Book, but was posted to the credit of J B in the Sales Ledger as £5 10s.

(*e*) £5 paid for Repairs to Machinery was entered in the total column of the Petty Cash Book, but not extended in the appropriate analysis column, the totals of which were posted.

The correction of these errors enabled the books to be balanced, and you are required to give the Journal entries necessary to correct them, showing by means of a summary the amount of the original entry in the Suspense Account.

(*Chartered Institute of Secretaries, Intermediate.*)

SOLUTION

JOURNAL

		£ s. d.	£ s. d.
19.. (*a*) July 31	Suspense A/c . . . . . To Purchases A/c . . . Cancellation of amount debited to Purchases A/c of total of Purchases Returns Book in error.	100 – –	100 – –
	Suspense A/c . . . . . To Purchases Returns A/c . . To give effect to correct posting of total of purchases returns cancelled in last entry.	100 – –	100 – –
(*b*)	Suspense A/c . . . . . To Sales A/c . . . . . To correct error of under-cast of Sales Day Book for May on fo.	10 – –	10 – –
(*c*)	Suspense A/c . . . . . To Discounts on Sales A/c . . Cancellation of amount debited to discount on Sales A/c of total of discounts on purchases for June.	120 – –	120 – –
	Suspense A/c . . . . . To Discounts on Purchases . . To give effect to correct posting of total of discounts on purchases cancelled in last entry.	120 – –	120 – –
(*d*)	J B . . . . To Suspense A/c . . . . . Cancellation of incorrect posting from Sales Day Book on fo.	5 10 –	5 10 –
	J B . . . . To Suspense A/c . . . . . To give effect to correct posting of item in Sales Day Book cancelled in last entry at the correct amount.	10 5 –	10 5 –
(*e*)	Repairs to Machinery . . . To Suspense A/c . . . . To give effect to posting of item omitted on fo. of Petty Cash Book.	5 – –	5 – –
		£470 15 –	£470 15 –

SUMMARY SHOWING AMOUNT OF THE ORIGINAL ENTRY IN THE SUSPENSE ACCOUNT

	£	s.	d.	£	s.	d.
Item (*a*) as per Journal entry	100	–	–			
" (*a*) " " "	100	–	–			
" (*b*) " " "	10	–	–			
" (*c*) " " "	120	–	–			
" (*c*) " " "	120	–	–			
" (*d*) " " "				5	10	–
" (*d*) " " "				10	5	–
" (*e*) " " "				5	–	–
	450	–	–	20	15	–
Amount of original entry in Suspense A/c				429	5	–
	£450	–	–	£450	–	–

Entries for Closing the Books and for Adjustments at the Year End. Nothing need be said under this last heading as two complete examples will be found on pages 71 and 76.

QUESTIONS

1. Describe briefly the nature of one-sided errors.
2. What are (*a*) Errors of Omission, (*b*) Errors of Commission? How do they occur?
3. What are the particular functions of Suspense Accounts? In what circumstances are they employed?
4. When errors occur in one trading period and are not revealed until the next trading period, what method of correction is usually adopted? Give an example of the correction of such an error to illustrate your answer.

EXERCISE III

1. A, B, and C are partners in a retail business. Give the Journal entries necessary to record the following matters, on closing the books as on 31st December, 19.., the end of the year of account—

(*a*) The provision of £37 10s. as depreciation on shop fixtures and fittings.

(*b*) The charging to A of £3 10s. representing a week's wages paid by the firm to one of their van drivers, he having been employed by A during that period to drive his private car.

(*c*) The adjustment arising out of the fact that stock valued at £42 (at cost) had been distributed as free samples to the public.

(*d*) The charging of interest for the year at 5 per cent on the partners' Capital Accounts which were, respectively, A, £9,000; B, £7,000; and C, £4,000.

(*R.S.A.*)

2. On 1st January, the Provision for Discount on Creditors was £157 9s. 9d. The Discounts Received during the year amounted to £57 12s. 2d. The Creditors at 31st December are £5,340 18s. 10d., and a new Provision of $2\frac{1}{2}$ per cent is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

3. A book-keeper balances his books monthly, and if at any time his books fail to balance he enters the difference temporarily in a "Suspense Account." On 31st December, 19.., the books were properly balanced, but on the following 31st January there was an excess debit of £11 9s. 9d., the suspense account

therefore being credited with this amount. During February, the difference was found and accounted for as follows—

(*a*) Discount amounting to £1 5s. 3d. had been allowed to a customer A and credited to his account, but no other entry made.

(*b*) Wages paid, amounting to £78 5s. 3d., had been posted to the wages account as £87 5s. 3d.

(*c*) A creditor's balance of £4 15s. had been entirely overlooked when taking out the list of balances on 31st January.

(*d*) The remainder of the difference was due to a mis-cast in the Sales Day Book.

Set out in Journal entry form the corrections necessary to adjust the several accounts affected. (*R.S.A.*)

4. A difference on a set of books has been carried to a Suspense Account, and you are asked by the proprietor of the business to trace this difference. On investigation you find that it is caused by the following errors—

(*a*) A total in the Sales Day Book of £765 17s. 6d. was carried forward as £756 17s. 6d.

(*b*) A payment of £1 18s. 4d. for goods purchased from A. Brown & Son had been posted twice, once to the personal account and once to cash purchases.

(*c*) The June discounts received and allowed amounting to £10 9s. 7d. and £12 2s. 9d. respectively, had been posted to the wrong sides of the Discount Account.

(*d*) A cheque for £40 paid to a customer for a car purchased from him had been posted to his credit in the Sales Ledger.

(*e*) The debit side of the General Expenses Account had been under-cast by £5.

Show the Suspense Account as it would appear after you have corrected the errors. (*R.S.A.*)

5. Mr. Charles Cantuar, a grocer, gives you the following Balance Sheet, which he has drawn up, and asks you to correct it.

BALANCE SHEET OF MR. CHARLES CANTUAR

FOR THE YEAR ENDED 31ST DECEMBER, 1948

Liabilities	£	£	*Assets*	£	£
Mr. Charles Cantuar's Capital account—			Furniture, Fixtures and Fittings, etc., as at 31st Dec., 1947 . . .	780	
Balance b/f at 31st Dec., 1947	1,000		Freehold Premises as at 31st Dec., 1947 . .	3,000	
Drawings added . .	512				3,780
Loan received from Mr. Eric Ebor . . .	2,000		Sundry Debtors at 31st Dec., 1948 . .		3,437
		3,512	Cash in Hand . . .		147
Sundry Creditors at 31st Dec., 1948 . . .	4,600		Stock-in-Trade, at 31st Dec., 1947, as valued by Mr. Cantuar. . .		1,641
Bank Overdraft . . .	146				
		4,746			
Depreciation at 10% p.a. .	78				
Current Account (being Charles Cantuar's credit balance not drawn out of business at 31st Dec., 1947)	513				
		591			
Profit and Loss Account— Net profit for the year ended 31st Dec., 1948 .		156			
		£9,005			£9,005

On checking his figures you find that they are correct, his Net Profit for the year ended 31st December, 1947, being correctly stated as £156. His Stock

figures were, according to his own valuations, £617 at 31st December, 1948, and £1,641 at 31st December, 1947.

You are required to correct the errors he has made, and to show the Balance Sheet drawn up in the proper order and form. (*R.S.A.*)

6. The following errors were found in the books of Messrs. C. Drew & Co., affecting the year ended 31st December, 19. .—

(1) £25, Sales to H. Carver, had been posted to his account as £2 5s.

(2) A purchase of £350, Plant and Machinery, had been posted to Purchases Account.

(3) In addition of the Returns Inwards Book, a total of £787 had been carried forward as £878.

(4) The Sales Journal had been over-added by £68 5s.

You are required to show—

(*a*) The adjusting Journal entries necessary to correct these errors.

(*b*) The adjusted profit for the year (the profit before adjusting the errors being £3,553 17s. 1d.) (*R.S.A.*)

7. P closes his books annually as on 31st March, and on 31st March, 1948, the Provision for Bad and Doubtful Debts stood at £75.

During the year ended 31st March, 1949, debtors amounting to £92 7s. 6d., were written off as bad and some old unclaimed credit balances amounting in all to £8 15s. were written off and transferred to the Provision. As on 31st March, 1949, the Provision was made up to £100.

Set out in Journal form the entries recording these transactions, and draw up a statement showing the combined effect of them on the Profit and Loss Account for the year.

8. On preparing a Trial Balance as on 31st December, 19. ., a trader found that the debit balances exceeded the credits by £38 9s. 3d. The following errors were subsequently discovered—

(*a*) A credit balance of £5 9s. 6d. had been omitted from the list of balances in the Bought Ledger.

(*b*) A cheque for £3 15s. received from a Debtor had been correctly entered in the Cash Book, but posted to the personal account as £5 13s.

(*c*) An allowance of 19s. 9d. had been claimed from a Creditor and entered in the personal account without the double entry being completed.

(*d*) Discounts received for November, totalling £17 4s., had been posted to the debit of the Discount Account instead of the credit.

Draw up a statement showing the effect of these errors and ascertain what the "difference" in the books will be after correcting them.

(*R.S.A. and L.C. Com. Joint—B. of Ed. Endorsed Cert.*)

9. TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR YEAR TO 31ST DECEMBER, 19.... *Cr.*

	£		£
To Stock	1,500	By Sales	5,100
,, Purchases	3,100	,, Stock	1,200
,, Balance c/d	1,700		
	£6,300		£6,300
To Expenses	680	By Balance b/d	1,700
,, Balance to Capital A/c	1,020		
	£1,700		£1,700

On the figures set out above, indicate—
(*a*) The percentage of Gross Profit on Sales.
(*b*) The percentage of Gross Profit on Cost of Goods Sold.
(*c*) The percentage of Net Profit on Sales.
(*d*) The percentage of Expenses on Cost of Goods Sold.

10. Give a list of the books in use in the Counting House of a City Warehouseman, and explain the object of each. Name one Book, the keeping of which is of essential importance in a well-organized Commercial House.
(*London Chamber of Commerce.*)

11. Give a form of Cash Book, the proper keeping of which will give a maximum of results with minimum expenditure of time and labour.
(*London Chamber of Commerce.*)

12. Make up a Coal Trading Account (net quantities and moneys) from the following entries. Show the profit made and the shrinkage in weight.

Jan. 1. Stock on hand, net weight, 250 tons at 15s. 6d.
,, 2. Bought 500 truck-loads of 7 tons each, colliery weight of 21 cwt. to the ton, at 6s. 4d. at the colliery.
,, 2. Railway charges thereon, at 6s. 10d. colliery weight.
,, 3. Bought cargo, 1,240 tons, colliery weight, at 7s. 2d., f.o.b. Sunderland.
,, 15. Freight to London and unloading, £315.
,, 31. Sundry Sales, net weight—
Large, 4,590 at 19s. 6d.
Small, 410 at 4s.
,, 31. Cartage and expenses on Sales, 2s. 3d. per ton.

Memo. No stock left. (*Chartered Accountants.*)

13. The following Trial Balance was extracted from the books of Messrs. Angus MacAdam and John Westrum as on 31st December—

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Angus MacAdam (Capital A/c)				6,000	–	–
John Westrum ,, ,,				2,000	–	–
Angus MacAdam (Drawings A/c)	1,000	–	–			
John Westrum ,, ,,	300	–	–			
Land and Buildings	4,960	–	–			
Plant and Machinery	1,036	10	–			
Stock, 1st January	2,019	3	7			
Debtors and Creditors	1,596	15	–	1,362	13	3
Provision for Doubtful Debts				66	3	–
Purchases and Sales	9,284	1	6	14,274	6	6
Returns Inwards	370	2	–			
,, Outwards				870	2	–
General Expenses	150	6	–			
Manufacturing Wages	2,001	15	7			
Rates and Taxes	167	4	9			
Insurance	66	9	7			
Manufacturing Expenses	225	10	4			
Salaries	666	8	–			
Discount A/c	39	4	1	29	18	8
Cash in hand	64	3	8			
,, at Bank	655	9	4			
	£24,603	3	5	£24,603	3	5

The Partnership Agreement provides—

(1) That 5 per cent per annum shall be allowed upon Partnership Capital (as a charge to the Profit and Loss Account), and that such interest shall be credited to the Partners' Drawings Accounts.

(2) That a Partnership Salary out of Net Profits (if and as made) of £300 per annum shall in the first instance be credited to Mr. Westrum's Drawings Account.

(3) That the Net Profit (if any), after providing for the aforesaid Partner's Salary, shall be divided between the Partners *pro rata* to the amounts at the credit of their Capital Accounts, and shall be credited to their Drawings Accounts.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date, subject to the following adjustments—

Depreciation is to be charged as follows—

2½ per cent on Land and Buildings.
10 per cent on Plant and Machinery.

The Provision for Doubtful Debts is to be increased to 5 per cent on the Sundry Debtors.

The unexpired portions of the following expenses are to be carried forward—

Rates	£27	1	9
Insurance	16	7	9

The Stock on hand on 31st December was agreed at the value of £1,991 7s. 6d. *(R.S.A.)*

14. What special instructions would you suggest should be given at the time of "Stock-taking" to the clerks who are responsible for checking inwards invoices and have charge of the Purchase Book and Purchase Ledger, so as to ensure the accuracy of the figures representing purchases, expenses, and stock as appearing in the Trading Account for the period under review? *(R.S.A.)*

15. The following Balances appear in the books of Norman Lockell on 31st December—

Freehold Premises, £6,000; Wages of Workmen, £11,782; Bills Payable, £5,140; Consignments Outwards at cost and still unsold, £1,800; Discounts, *Dr.* balance, £572; Bills Receivable, £1,558; Loan from Bankers, £4,000; Norman Lockell, Capital Account, £25,300; Drawings Account, £2,400; Purchases, £25,360; Advances on Consignments, £1,000; Fire Insurance (£20 prepaid), £90; Stock, 1st Jan., £9,570; Rents Received, £200; Salaries, £2,920; Cash in hand, £300; Machinery and Plant, £7,640; Sales (including consignments), £44,970; General Expenses, £940; Returns Inwards, £3,190; Sundry Debtors, £13,208; Sundry Creditors, £7,720; Rent, Rates, and Taxes, £1,000.

Make the following adjustments—

Provision for Bad Debts, 5 per cent on Debtors; Interest on Capital, 5 per cent per annum; Interest due to Bank, £100; Depreciation of Premises, £100; Depreciation of Plant and Machinery, 10 per cent per annum.
The Stock at 31st December was valued at £16,174.
Prepare Trading and Profit and Loss Accounts for the year ended 31st Dec., and a Balance Sheet as on that date.

16. John Green, Henry Richards, and Reginald Everitt trade together under the title of Green, Richards & Co.; each partner is entitled to a salary of £500 per annum.

John Green's capital is £8,000; Henry Richard's £7,000; and R. Everitt's, £5,000.

At the end of the year the balances were as follows—

	£	s.	d.		£	s.	d.
Debtors	5,162	11	1	Discount . . *Dr.*	394	11	3
Creditors	4,726	15	2	Interest on Loans *Dr.*	12	10	–
Bills Receivable	365	10	–	Insurance	63	4	–
„ Payable	918	19	11	Consignments . *Dr.*	198	10	–
Stock	7,017	13	8	Bad Debts	17	2	6
Purchases	62,169	7	3	Sundry Trade Charges	2,838	18	9
Wages	3,013	4	4	Provision for Bad Debts	100	–	–
Salaries of Staff	618	13	8	Sales	73,483	10	10
Office Expenses	493	8	5	Loans at 5%, borrowed 30th June . *Cr.*	500	–	–
Property—Works	6,500	–	–	Reserve for Discounts *Cr.*	182	11	6
Machinery	10,000	–	–				
Cash	16	14	11				
Bank	1,029	17	7				

The Stock at 31st December amounted to £8,316 19s. 10d. Write $7\frac{1}{2}$ per cent Depreciation off Machinery and $2\frac{1}{2}$ per cent off Works. Make out Profit and Loss Account and Balance Sheet, crediting each partner with 5 per cent interest on his capital. (*U.L.C.I.*)

17. At a recent examination, the understated "Balance Sheet" was sent in by a Candidate. Have you any criticism to offer upon it?

BALANCE SHEET

MESSRS. A. & B. 31ST DEC., 19..

Assets	£	£	*Liabilities*	£	£
Plant A/c		4,000	A's Capital	3,000	
Debtors	8,200		*Add* Interest	150	
Less Provision (31st Dec.)	410				3,150
		7,790	B's Capital	2,000	
			Add Interest	100	
A's Drawings		300			2,100
B's „		200	Creditors		9,800
Repairs		120	A's Profits		1,800
Stock (1st Jan.)	3,200		B's „		1,800
„ (31st Dec.)	4,000		Depreciation on Plant		200
		7,200	Reserve for Debtors (Jan.)		350
Cash		420	Balance		830
		£ 20,030			£ 20,030

(*London Chamber of Commerce.*)

18. The undermentioned errors were made by the accounts department staff in the books of Messrs. Black & Brown during the year ended 31st December—

(*a*) On 30th June, a builder's charge for the erection of a small shed, amounting to £198, was analysed in the Purchases Journal under the head of "Repairs," and posted to that account.

(*b*) On 1st July a cheque for £18 2s. 4d. received from James Smith was dishonoured, and was posted to "Allowance Account."

(*c*) On 12th August the total of the previous month's wages was debited

to "Manufacturing Wages Account." During the month some new machinery had been put down, and the firm's own men had spent time thereon amounting to £141.

(*d*) On 28th December, goods to the value of £64 were returned by Francis White, and were taken into stock; but the returns were not entered in the books until 2nd January.

How would you adjust these errors, and how would they affect the Annual Accounts for the year ended 31st December? (*R.S.A.*)

19. John Pearson and Allan Macgregor are in partnership as Corn Dealers. On 31st December the following Balances were extracted from their books.

You are requested to prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. Before preparing these accounts, it is necessary to take the following matters into consideration—

(*a*) Profits and losses are to be shared, two-thirds by Pearson, and one-third by Macgregor.

(*b*) Interest at 5 per cent per annum is to be charged on Capital but not on Drawings.

(*c*) Depreciation is to be charged as follows: (1) Fixtures and Fittings, 5 per cent. (2) Plant and Machinery, 10 per cent. (3) Horses and Carts, 15 per cent.

(*d*) The Bad Debts Provision is to be made up to £500.

(*e*) Only three quarters' Rent has been paid on 31st December, and no reserve had been passed through the books for the quarter owing.

(*f*) The unexpired amounts to be carried forward are: (1) Rates and Taxes, £14 8s. 7d. (2) Insurance, £7.

(*g*) The value of the Stock in hand, as on 31st December, was agreed at £2,994 14s. 7d.

Give the Journal entries for the above adjustments.

BALANCES

	£	s.	d.		£	s.	d.
John Pearson, Capital	6,000	–	–	John Pearson, Drawings	650	–	–
Allan Macgregor ,,	3,000	–	–	Allan Macgregor, ,,	300	–	–
Repairs and Renewals	248	2	1	Water, Gas, etc.	126	2	7
Plant and Machinery	847	10	–	Rent	150	–	–
Sales	19,947	18	9	Provision for Bad Debts (1st Jan.)	150	–	–
,, Returns	742	7	8	Insurance	30	5	2
Stock (1st Jan.)	2,721	14	1	Trade Expenses	197	18	1
Bad Debts	89	4	–	General Expenses	203	1	2
Cash Sales	384	2	9	Discounts . *Cr.*	4	9	7
Carriage	1,421	10	7	Sundry Creditors	1,099	10	10
Travelling Expenses	156	14	2	,, Debtors	5,771	4	1
Stable Expenses	192	1	4	Horses and Carts	356	14	11
Purchases	13,728	–	6	Rates and Taxes	127	4	6
,, Returns	757	16	5	Fixtures and Fittings	375	8	9
Bills Receivable	929	1	1	Commission . *Dr.*	62	12	7
Wages	1,646	13	10	Cash in hand	46	7	1
Salaries	346	2	3	Bank balance . *Cr.*	122	2	2

(*R.S.A.*)

20. From the following Balance Sheet of C. English as at 31st March, 1949, calculate the answers to the questions given on the next page.

BALANCE SHEET OF C. ENGLISH

AS AT 31ST MARCH, 1949

		£			£
Creditors		1,450	Cash at Bank		150
Capital	£4,800		Debtors		2,350
Add Net Profit	250		Stock		1,000
	5,050		Furniture and Fittings		260
Less Drawings	240		Machinery	£550	
		4,810	*Less* Depreciation	50	
					500
			Land and Buildings		2,000
		£6,260			£6,260

(*a*) What is the total of English's circulating assets?
(*b*) What is the total of English's fixed assets?
(*c*) What is his working capital?
(*d*) If English had not depreciated his machinery what would his capital be?
(*e*) If Furniture and Fittings are only worth £200 what should the Net Profit be?
(*f*) If on 1st April, 1949, a machine was bought on credit for £150 what would the creditors then be? (*R.S.A.*)

21. A business conducts a special advertising campaign at intervals of three years. The benefit of this appears to be felt about equally in all years, and accordingly it was desired to equalize the annual charge against profits. This was done by charging £1,500 every year, the amount being credited to "Advertising Suspense Account," commencing in 1944. The actual expenditure on advertising in each year was as follows—

	£
Year to 31st December, 1944	498
" " " 1945	3,785
" " " 1946	309
" " " 1947	271
" " " 1948	3,466

Write up the Advertising Suspense Account for the period and show how the balances should be dealt with in the Balance Sheet at the end of each of the years 1944 and 1945. (*R.S.A. and L.C.C. joint—B. of Ed. Endorsed Cert.*)

22. The following items appear in a manufacturing company's books—

	£
Rent, Rates, and Taxes	1,200
Lighting, Heating, etc.	340
Total Wages and Salaries	4,900
Carriage Inwards	200
Plant, Repairs, and Renewals	185
Discounts on purchases	210
Discounts and Allowances made on Sundry Debtors A/cs	190
Managing Director's Remuneration	1,000

The factory portion of the premises is $\frac{4}{5}$ths of the whole building.

The office salaries and wages amount to £500.

Electric power charges amounting to £120 were included in the item of lighting, heating, etc., and an amount of £15 accrued for power had not been included.

Frame the necessary Journal entries to transfer the proper items to Trading Account or Profit and Loss Account as the case may be. (*Civil Service.*)

23. What is a Capital Account, and what does it embrace? Explain the difference between Gross and Net Profit, and between a Trading Account (or Working Account) and a Profit and Loss Account. *(London Chamber of Commerce.)*

24. Z. Cobb and R. Cobb are in partnership, sharing profits and losses as to two-thirds and one-third respectively.

You are required, from the following information, to show their Capital and Current Accounts in the Ledger for the year ended 30th September, 1948 (no Journal entries are required).

	Z. Cobb	R. Cobb
	£	£
Capital (Balances at 1st October, 1947) . .	8,000 *Cr.*	3,600 *Cr.*
Current Account (Balances at 1st October, 1947)	203 *Cr.*	104 *Dr.*
Additional capital brought in on 1st April, 1948	1,200	1,400
Drawings during the year	2,000	1,500

The profit for the year ended 30th September, 1948, was £2,970, out of which interest at 5 per cent per annum on their capitals is to be credited to the partners. *(R.S.A.)*

25. The account of A. Buyer in the books of Wholesalers, Ltd., showed a debit balance of £15 9s. 3d. on 1st January, 1948. The following transactions subsequently took place—

(*a*) On 10th January Buyer purchased goods (on credit) to the value of £40.

(*b*) On 13th January he returned £5 of them as not up to sample and was given credit for the same.

(*c*) On 5th February he forwarded a cheque in settlement of his account, deducting 5 per cent discount in respect of the January purchase for settlement within one month.

(*d*) On 18th May he paid a deposit of £100 on account of future purchases, in consideration of which he was to receive a discount of 10 per cent on gross purchases covered by this amount.

(*e*) On 23rd June he ordered goods to the (gross) value of £40, on 17th August goods to the value of £50, and on 29th August goods to the value of £60.

(*f*) In November Buyer was adjudicated bankrupt, and the statement of affairs showed that the creditors would probably receive 5s. in the £. When closing their books at the end of December, Wholesalers, Ltd., wrote the expected loss off the account.

(*g*) On 1st February, 1949, a cheque for £10 5s. 6d. was received from the trustee in bankruptcy in final settlement.

You are requested to write up Buyer's Account in the books of Wholesalers, Ltd. *(R.S.A.)*

26. G. Reader and A. Storey are in partnership sharing profits and losses as to two-thirds and one-third respectively. On 1st January, 1948, the total capital of the firm was £5,000, held by the partners in equal shares, and on 1st July each partner paid into the business Bank Account £500 as additional capital. During the year each partner drew from the business £80 at the end of each quarter. On 31st December, 1948, the credit balance of the Profit and Loss Account was £840. Show the Ledger accounts of the partners as they would appear after the books had been balanced on 31st December, 1948. *(R.S.A.)*

27. From the following particulars give the Telephone Account for 1948 as it would appear in the Nominal Ledger—

1948			£ s. d	£ s. d.
Jan. 15.	Cash paid for	Rent to 31st March, 1948	3 7 8	
	,, ,,	Deposit	2 – –	
				5 7 8
April 16.	,, ,,	Rent to 30th June, 1948	3 7 8	
	,, ,,	Calls to 31st March, 1948	6 7 10	
				9 15 6
July 12.	,, ,,	Rent to 30th September, 1948	3 7 8	
	,, ,,	Deposit	3 – –	
	,, ,,	Calls to 30th June, 1948	5 3 –	
				11 10 8
Oct. 15.	,, ,,	Rent to 31st December, 1948	3 7 8	
	,, ,,	Calls to 30th September, 1948	4 16 –	
				8 3 8

The charge for calls to 31st December was £4 17s. 2d.; this was paid on 17th January, 1949. *(R.S.A., Adapted.)*

28. (*a*) Why is it necessary to take stock at the end of the financial year, and how is its value arrived at?

(*b*) What entries would you make in the Ledger if the valuation of the Stock is £2,500? *(R.S.A.)*

29. The Sussex Manufacturing Co., Ltd., rent their factory from J. T. Berkshire for £720 per annum, payable quarterly on 1st January, 1st April, 1st July and 1st October.

From the following information you are required to write up the Rent and Rates Account as it would appear in the company's Nominal Ledger for the financial year ended 31st January, 1948.

1947		
April 1.	Paid	rent for quarter to date, J. T. Berkshire.
July 1.	,,	,, ,, ,, ,, ,,
,, 1.	,,	rates to 30th September, 1947, £86.
Oct. 1.	,,	rent for quarter to date, J. T. Berkshire.
Dec. 15.	,,	rates to 31st March, 1948, £87.
,, 31.	,,	income tax due under Schedule A, £150.
1948		
Jan. 1.	,,	rent due for quarter to date, less Schedule A income tax.

NOTE. Rates paid in December, 1946, £90 for six months to 31st March, 1947. Apportionments to be made in months.

30. The following items of expenditure are incurred by a firm. State which are capital expenditure, and which are revenue expenditure—

(*a*) £43 paid in wages for the installation of an additional steam boiler to generate steam for driving machinery.

(*b*) £186 paid for replacing plant that is worn out and has no scrap value. The displaced plant stands in the books at £186.

(*c*) £200 paid for re-upholstering chairs in a cinema.

(*d*) The purchase of an additional new show case at a cost of £50.

(West Riding of Yorkshire.)

CHAPTER IV

SINGLE ENTRY AND CONVERSION TO DOUBLE ENTRY

IT would obviously be inaccurate to talk of a single entry "system" of book-keeping, as the entries made in a set of books not kept on double entry principles do not follow either a logical or a scientific plan. Rather should we say that single entry is a method, or variety of methods, employed for the recording of transactions, which ignores the twofold aspect, and consequently fails to provide the business man with the information necessary for him to be able to ascertain his position.

The object of this chapter is, therefore, to consider what are the missing figures and general shortcomings of single entry, and what must be done to carry out the conversion to double entry.

SINGLE ENTRY

One can perhaps develop a very good mental picture of the state of affairs existing when books are kept in some such haphazard way, by visualizing the place where they are to be found, and the outlook of the proprietor. In all probability it will be a small local shopkeeper, or even the wholesaler or manufacturer in a very small way, with premises in keeping, and a connexion which just gives him a living, year in and year out.

In support of the fact that such exist, one has only to take note of the advertisements for audit clerks with experience in the preparation of accounts from *incomplete records.*

The matters of outstanding importance to the proprietor of a business of this type are three in number—

1. What money has he in the Bank?

2. How much money is owing to him and by whom?

3. What does he owe for goods purchased on credit, and the important items of expenditure such as Rent, Rates and Wages?

It follows that he will keep only such books as are necessary to show this, and in all probability they will consist of a Cash Book and Ledger.

The Cash Book may or may not be written up correctly, as he can rely on his Pass Book for the figure he wants, but the Ledger will generally have accounts opened for every person to whom goods are sold on credit, and each account will be debited, direct, without

the intervention of a book of original entry. It is unlikely that Creditors' accounts will be opened, as he will keep his "bills" on a clip, and remove them as paid. In the case of the Debtors, he will not feel the need for posting Cash received, as he will open the Ledger and write the word *paid* each time.

Sufficient has been said to show the shortcomings of this type of account keeping, as no records will appear of—

1. Capital.
2. Creditors.
3. Assets (other than Debtors).
4. Expenses.
5. Total Sales and Purchases.

Before considering how such a set of books can be converted into double entry, some time might be profitably devoted to the task of finding results in the form of profit or loss from such incomplete figures.

A fact learned in the early days of our study of book-keeping is of outstanding importance. It is that the difference between Assets and Liabilities is the Capital, and that, in consequence, subject to any adjustments required for drawings, or the introduction of fresh money, profits or losses will be reflected in the change of Capital from one period to another. If we think of the many Balance Sheets we have drafted for sole traders or partnerships, this will be recognized as being true. The object to aim at, therefore, is to build up some sort of Statement of Affairs, with the assistance of the proprietor.

The valuation of Premises should create little difficulty and any Plant or Machinery, Fixtures or Fittings can be calculated on the original cost which the owner will probably know, or he must be asked either to have them valued or to estimate the value to the best of his ability. Stock must be taken, the Debtors will appear in the Ledger, and the Creditors can be ascertained from the file or clip of unpaid invoices and statements. To obtain the Cash balance, the Cash Book will have to be written up with the aid of the Pass Book and cheque book.

Furnished with this information, and an estimate of the amount of the proprietor's Capital at the commencement of the period under consideration, a Statement can be built up, and the profit or loss ascertained.

As an example, the following is an adaptation of a single entry question set in an Intermediate Paper of the Royal Society of Arts—

Example 1. A manufacturer, Philip Morgan, kept his books on what is known as the single entry system. The position of the business at the 31st December, 19.. revealed the following—

	£
Freehold Premises	1,000
Plant and Machinery	600
Stock in Trade	1,300
Sundry Debtors	1,750
Cash at Bank	300
Sundry Creditors	1,875

At the 1st January, 19.., his Capital was £5,500. Prepare a Statement of Affairs showing his position at the 31st December, 19.., and ascertain his profit or loss for the year.

Solution

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED 31ST DECEMBER, 19..

Dr.					Cr.
19..		£	19..		£
Dec. 31	To Sundry Liabilities .	1,875	Dec. 31	By Sundry Assets . .	4,950
,, 31	,, Capital at this date c/d	3,075			
		£4,950			£4,950
19..			19..		
Jan. 1	To Capital at commencement . . .	5,500	Dec. 31	By Capital b/d	3,075
			,, 31	,, Loss for year . .	2,425
		£5,500			£5,500

STATEMENT OF AFFAIRS AS AT 31ST DECEMBER, 19..

Liabilities		£	*Assets*	£
Capital A/c—			Freehold Premises . .	1,000
Balance at 1st January .	£5,500		Plant and Machinery . .	600
Less Loss for year	2,425	3,075	Stock	1,300
			Sundry Debtors . . .	1,750
Sundry Creditors . .		1,875	Cash at Bank . . .	300
		£4,950		£4,950

No cognizance has been taken of the fact that the owner must have drawn out money for his private use, and in many cases used some of his stock in his household. Depreciation of Fixed Assets should also be allowed for.

The necessary adjustments must be made in the Statement of Profit and Loss, and, of course, on the Balance Sheet.

A further example with adjustments of this nature should make the position clear.

Example 2. The following Statement of Affairs has been drawn up to give the financial position, as on 31st March, 1949, of A. Brown, who keeps his books on a single entry basis.

STATEMENT OF AFFAIRS, AS AT 31ST MARCH, 1949

Liabilities	£	*Assets*	£
Capital A/c . . .	6,192	Fixtures	250
Creditors	742	Stock	2,305
		Debtors	4,176
		Cash	203
	£6,934		£6,934

His Capital at 31st March, 1948, was £5,659.

Brown transferred £50 a month from his business banking account to his private banking account, by way of drawings, and has taken £25 worth of stock for private use. His private car was sold for £180, and the proceeds paid into the business. He has agreed that his Fixtures should be written down by £50.

Calculate Brown's profit for the year, and re-draft the Statement of Affairs as at 31st March, 1949.

Solution STATEMENT OF PROFIT AND LOSS

Dr. FOR THE YEAR ENDED 31ST MARCH, 1949 *Cr.*

	£		£
To Creditors . . .	742	By Sundry Assets at 31st March, 1949 . .	6,934
„ Capital at 31st March, 1948	5,659		
„ Balance c/d . . .	533		
	£6,934		£6,934
To Sale of private car . .	180	By Balance b/d . . .	533
„ Depreciation of Fixtures .	50	„ Drawings . . .	600
„ Net Profit . . .	928	„ Goods withdrawn . .	25
	£1,158		£1,158

STATEMENT OF AFFAIRS, AS AT 31ST MARCH, 1949

Liabilities		£	*Assets*		£
Capital A/c—			Fixtures at 31st		
Balance at 31st			March, 1948 .	£250	
March, 1948	£5,659		*Less* Depreciation	50	200
Add New Capital	180				
„ Net Profits			Stock		2,305
for year	928		Sundry Debtors . . .		4,176
			Cash		203
	6,767				
Less Drawings	625				
		6,142			
Sundry Creditors . .		742			
		£6,884			£6,884

From these examples it will be seen that the steps involved in answering such a question are as follows—

1. Find the difference between the opening and closing Capitals, which gives apparent profit.
2. Adjust this apparent profit by adding withdrawals or amount by which Fixed Assets have been appreciated, and deducting Depreciation to be written off, Bad Debts Provisions or increases of Capital by the introduction of further Cash.
3. Draft the new Statement of Affairs.

CONVERSION TO DOUBLE ENTRY

The amount of work to be done to a set of books which are in an incomplete state to convert them to double entry, will differ with almost every set of books. The best that can be done is to imagine a concrete case, decide what records are to be found and then follow the conversion step by step.

To take perhaps an extreme case, let it be assumed that the books being dealt with are those of a trader who has made no attempt at all at even partial double entry, and that we are supplied with a Cash Book more or less correctly written up, but not posted, a Ledger, containing accounts of all Debtors, entered correctly on the debit side as regards Sales, and on the credit side in respect of Returns, but with no Cash posting. Other than that, the invoices for Purchases and Expenses have been dealt with on a Cash basis, so that there is no Bought Ledger. The object of our efforts is to complete the double entries throughout, to make possible the preparation of a Trial Balance. If a schedule of the missing figures is prepared the task should be somewhat simplified, in the same way as an audit which is carried out to a programme.

The schedule would read somewhat as follows—

1. Cash Book not balanced or agreed with the Pass Book.
2. Cash Book not posted.
3. Total Sales and Returns not entered.
4. No Bought Ledger in use, but invoices and receipts available.
5. Total Purchases and Returns not entered.
6. No Stock Account in the Ledger.
7. No assets in the Ledger.
8. No Capital or Drawings Accounts opened.
9. No Expense Accounts.

The work will proceed along these lines—

Cash Book. From the Pass Book, Paying-in Book counterfoils, and cheque counterfoils, enter up the Cash Book and prepare a Reconciliation Statement. Post all items from the Cash Book. This will provide entries for the Sales Account as far as Cash Sales are concerned, close all Debtors Accounts in so far as they are paid,

and supply the debit entries in the Ledger for Expenses, Drawings and payments to Creditors for Purchases.

Sales Ledger. The cash having been posted, the debit and credit entries for Sales and Returns can be extracted on to analysis paper, or into a Day Book to supply the total figures for the Impersonal Accounts. At the same time the unpaid items can be noted down for the Sundry Debtors figure. Any Sales not entered will have to be dealt with and added to the list of Debtors.

Bought Ledger. Although it may be possible to avoid entering the invoices or the Cash by marking off the invoices and receipts to the Cash Book and entering only those unpaid, the work will be more satisfactory if all items are entered and the totals for the Impersonal Accounts and Sundry Creditors obtained by extraction in the same manner as was done with the Sales Ledger.

Asset Accounts. Accounts for Premises (if owned), Plant and Machinery, Fixtures and Fittings, Vehicles owned, and Stock, must be opened and the requisite figures obtained from the proprietor, or, if recently acquired, from the invoices. As an alternative, many of the figures might be obtained by application to the suppliers, and the question of Depreciation must then be dealt with.

In the case of the opening stock, the proprietor's estimates will have to be accepted, whilst an actual stock-taking will provide the figure for the Balance Sheet.

Liabilities. The Sundry Creditors having been obtained, the owner of the business must supply any information as to Loans, whilst the accrued items can be calculated from the Impersonal Accounts, which are now in the Ledger as the result of posting the Cash Book.

Trial Balance. It should be possible to prepare a Trial Balance at this point, and although one cannot guarantee its accuracy, the difference will be entered as Capital, and an account opened accordingly in the Ledger.

In many cases much of this work will not be necessary, but the programme has been planned on the assumption that the very minimum amount of book-keeping is being done in the books under consideration.

The student should be able to detect where modifications in this routine can be made if he will form a mental picture of the particular set of books he is asked to convert, built upon the given facts.

QUESTIONS

1. Define single entry. State briefly the disadvantages of this method of book-keeping.

2. Describe the steps you would take in order to prepare a Trading Account, Profit and Loss Account, and Balance Sheet from a set of books which had been kept upon the single entry system. (*London Chamber of Commerce.*)

3. Describe briefly how you would convert a set of books, which had been kept on single entry methods, into the double entry system (*R.S.A.*)

EXERCISE IV

1. From the following particulars, prepare a Trading and Profit and Loss Account for the year ended 31st March, 1949, and a Balance Sheet as that date.

BALANCE SHEET AS AT 31ST MARCH, 1948

	£			£
Capital	200,000	Buildings		100,000
Loan	50,000	Plant and Machinery		68,250
Creditors	16,262	Stock		67,750
Bank Overdraft	2,167	Debtors	£10,700	
		Less Provision for Bad Debts	1,070	
				9,630
		Profit and Loss A/c		22,799
	£268,429			£268,429

CASH SUMMARY FOR YEAR ENDED 31ST MARCH, 1949

	£			£
Cash Sales	10,626	Bank Overdraft	b/f	2,167
Debtors	121,004	Creditors		92,636
		Wages		10,607
		Trade Expenses		15,206
		Loan Interest		2,100
		Bank Balance	c/f	8,914
	£131,630			£131,630

The books disclose the following totals—

Discounts allowed for the year, £3,202; Discounts received, £2,006; Purchases, £95,585; Sales, £124,756.

Stock at 31st March, 1949. stood at £70,100; Debtors at £11,250; and Creditors at £17,205.

Depreciation is to be written off Plant and Machinery at 10 per cent and a provision of 10 per cent of Debtors outstanding is to be kept against bad debts. Insurance premiums of £62 have been paid in advance and included in Trade Expenses. (*Chartered Institute of Secretaries, Adapted.*)

2. A doctor set up in practice on 1st January, 1947. His cash receipts from patients during 1947 amounted to £619 and during 1948 to £1,042, his expenses in the respective years being £196 and £248.

Fees owing to him from patients unpaid at the end of 1947 amounted to £173 and at the end of 1948 to £281.

Ascertain his net earnings for each year.

3. Frost and Snow are in partnership, and share profits and losses in the proportions of 3 and 2. They keep their books on a single entry system. On 31st

December, 1947, a Statement of Affairs was prepared and showed the following position—

Liabilities	£	*Assets*	£
Capital—		Plant and Machinery	5,400
Frost	10,000	Stock	4,987
Snow	4,000	Sundry Debtors	6,723
Loan—Frost	2,000	Cash at Bank	1,766
Sundry Creditors	2,876		
	£18,876		£18,876

On 31st December, 1948, their assets and liabilities were—

	£
Sundry Debtors	7,367
„ Creditors	3,213
Plant and Machinery	5,400
„ „ Additions	2,000
Bills Receivable	1,000
Stock	4,813
Cash at Bank	1,399

You are required to ascertain the amount of the firm's profit or loss for the year ended 31st December, 1948, and to prepare a Statement of Affairs as at that date after taking into consideration the following—

(*a*) Depreciation on Plant and Machinery, including additions, is to be provided at the rate of 9 per cent per annum.

(*b*) On 1st October, 1948, Frost increased his loan by £2,000 in order to pay for additional machinery, the installation of which had been completed on the previous day.

(*c*) Interest on the loan is to be allowed at 5 per cent per annum.

(*d*) During the year Frost and Snow drew £1,243 and £1,030 respectively.

(*R.S.A., Adapted.*)

4. Robert Webber keeps his books by the single entry method. His financial position on 1st January was as follows—

	£	s.	d.		£	s.	d.
Cash in hand	12	10	–	Sundry Debtors	421	10	–
Stock	642	15	–	Machinery and Plant	981	–	–
Fixtures and Fittings	89	–	–	Sundry Creditors	1,209	15	–
Cash at Bank	153	–	–				

During the year, Robert Webber withdrew from the business, for private purposes, the sum of £480.

On 31st December, Webber's financial position was as follows—

Machinery and Plant, £1,350 10s.; Fixtures and Fittings, £80 10s.; Sundry Debtors, £732; Stock, £950 10s.; Cash in hand, £15; Bank overdraft, £500; Sundry Creditors, £1,400 10s.

From the above particulars, prepare a Statement showing the profit made by Webber for the year ended 31st December. When preparing this statement, no depreciation need be written off any of the assets, and no provision for Bad and Doubtful Debts is necessary. (*London Chamber of Commerce.*)

5. A keeps his books by single entry. On 1st January his Capital was £6,900. An analysis of his Cash Book for the year gives the following particulars—

	£
DEBIT SIDE	
Received from Sundry Debtors	6,000
Paid in on Capital A/c	500
CREDIT SIDE	
Due to Bank, 1st January	740
Payments to Sundry Creditors	2,500
General Expenses of Business	1,000
Wages	1,550
Drawings	300
Balance at Bank, 31st December	400
,, in hand	10

	1st January	31st December
Debtors at 1st January were	£5,300, and at 31st December were	£8,800
Creditors	,, £1,500 ,, ,,	,, £1,950
Stock	,, £1,700 ,, ,,	,, £1,900
Plant and Machinery	,, £2,000 ,, ,,	,, £2,000
Furniture and Fittings	,, £140 ,, ,,	,, £140

From the above material, prepare a Profit and Loss Account for the year ended 31st December, and a Balance Sheet at that date, after providing 5 per cent Interest on Capital (ignoring payments in and drawings), 10 per cent Depreciation on Plant, 5 per cent Depreciation on Furniture, and a Provision of 5 per cent on Sundry Debtors. *(Chartered Accountants.)*

6. David Fisher carries on a grocery business and does not keep his books on a double entry basis. The following particulars have been extracted from his books—

	1st July, 1948	*30th June*, 1949
	£	£
Plant and Machinery	900	900
Stock	400	350
Sundry Debtors	100	150
,, Creditors	250	200
Cash in hand	8	6
,, at Bank	225	250

The following transactions took place during the year ending the 30th June, 1949—

	£
Wages	300
Sundry Expenses	125
Printing, Stationery, and Advertising	56
Rent and Rates	125
Heating and Lighting	39
Cash received from customers	4,125
,, paid for Purchases	3,217
,, withdrawn from business for own use	156
Carriage	84

During the year Fisher had taken goods from his business for his own consumption, which amounted to 15s. per week, and had not paid any money into the business for them.

Prepare Balance Sheet as at the 1st July, 1948, and Trading and Profit and Loss Account for the year ending the 30th June, 1949, and Balance Sheet at the 30th June, 1949. *(Corporation of Certified Secretaries.)*

7. Walter Robinson, who is a slate merchant, has recorded his transactions in the following Books—

(*a*) SALES DAY BOOK, in which all sales to customers have been entered. The sales have been posted in detail to the debit of the customers' personal accounts in the "Sales Ledger."

(*b*) CASH BOOK. Only "Bank" items have been dealt with in this book, and all cash thus received and paid has been duly entered. Cash received from customers has been posted to their credit in the "Sales Ledger." Cash paid to creditors for goods purchased has been posted to their debit in the "Purchases Ledger." With these exceptions, no further posting has been done.

(*c*) PETTY CASH BOOK. This book, used for small cash payments, has been kept in funds by a weekly cheque passed through the "Cash Book."

(*d*) "SALES" and "PURCHASES" LEDGERS, as referred to above.

Statements from creditors and receipts have been kept on a file, but not otherwise dealt with. Except as detailed above, no further record of any kind has been kept by Robinson of his business transactions. Is Robinson's system of book-keeping an efficient one? If not, what alterations or additions will be necessary, in order that he may be in a position to prepare proper annual accounts? (*R.S.A.*)

8. What do you understand by—

(*a*) Nominal account, (*b*) Real account, (*c*) Personal account? Give two examples of each. (*U.L.C.I.*)

9. Explain the difference between a "Trading" Account and a "Profit and Loss" Account, and state in which account you would place the following items, giving your reasons—

Purchases; Manufacturing Wages; Carriage; Returns; Sales; Allowances; Debenture Interest; Salaries; Advertising; Stocks and Materials. (*R.S.A.*)

10. The Sundry Debtors at 31st December are £5,721 15s. 8d. A Bad Debts Provision of 5 per cent is required. The Bad Debts Provision at 1st January was £267 14s. 11d., and the Bad Debts during the year amounted to £236 3s. 2d. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries for the above (both ways).

11. On 1st January the Provision for Discount on Debtors was £156 16s. 6d. The Discounts Allowed during the year amounted to £164 8s. 10d. The Debtors at 31st December are £3,895 14s. 11d. A Bad Debts Provision of 5 per cent is made, and a new Discount Provision of 5 per cent is required. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to discount (both ways).

12. Prepare a Trading Account, Profit and Loss Account, and Balance Sheet from the following Balances of X, Y, Z & Co.'s Books, extracted at 31st December, covering six months' operations.

	£
Cash at Bankers	2,640
Petty Cash in hand	3
Sales	16,123
Stock-in-hand at commencement of period	2,741
Returns (Customers' returns for the half-year)	330
Discount allowed to Customers	938
Bills Receivable in hand	182
Sundry Debtors	5,272
Purchases	8,403
Discount allowed on Purchases	390

	£
Wages	1,404
Provision for Bad and Doubtful Debts	540
„ for Discount on Book Debts	197
Sundry Creditors	1,970
Buildings	4,384
Patent Rights	50
Loan on Mortgage	4,500
Rent, Rates, and Taxes	106
Advertising	463
Traveller's Salary	431
Carriage	394
Bad Debts Written off	101
Plant and Machinery	2,672
Repairs	84
C G—Capital Account Balance, 1st July	6,110
C G—Drawings Account	1,200
S G—Capital Account Balance, 1st July	2,952
S G—Drawings Account	720
Interest on Loans	124
Reserve Account. Patent Royalties received in advance	500
Royalties on Patents, attributable to the half year to 31st December *Cr.*	40
Trade and General Expenses	502
Depreciation written off Buildings	23
„ „ „ Plant	155
Stock-in-trade, 31st December	3,275

Profits to be apportioned—C G, $\frac{5}{8}$; S G, $\frac{3}{8}$.

(*Chartered Accountants.*)

13. On 1st January, 1948, the total of the debtors appearing in a trader's Sales Ledger was £1,537 5s. 10d. During the year 1948 the total cash received in respect of cash and credit sales was £5,731 6s. 3d., discount allowed amounted to £218 15s. 1d. and accounts amounting to £37 10s. were written off as bad. The total of the debtors on 31st December, 1948, was £1,732 16s. 6d.

Prepare a statement showing the amount of the net sales for the year.

(*R.S.A.*)

14. The following errors have been made during 1948 in a set of books—

(*a*) The Sales Day Book was undercast by £10 in April.

(*b*) A customer's Personal Account has been correctly credited with 15s. 3d. discount, but no corresponding entry made in the discount column of the Cash Book.

(*c*) Discounts allowed for July, amounting to £7 4s. 9d., were posted to the credit, instead of the debit, of Discount Account.

(*d*) A debit balance on a customer's account was carried forward 10s. short.

(*e*) An old credit balance of £2 5s. standing on a customer's account was entirely overlooked when extracting the balances.

Draw up a statement showing the effect of each of these errors on the Trial Balance drawn up at the end of the year and state what "difference" the Trial Balance will show.

15. Mark Baines and Peter Benson are in partnership. The terms of the partnership are that partnership salaries are to be credited to the partners as follows: Baines, £200; Benson, £100; that interest on capital at 5 per cent per annum is to be credited to the partners; and that the remaining profits are to be divided between Baines and Benson in the ratios of 2 : 3. On 31st December, 1948, the Trial Balance on page 123 was extracted from their books.

TRIAL BALANCE OF BAINES AND BENSON,

31st December. 1948

	£	£
Bank	168	
Sales, net		10,000
Purchases Returns		171
Sundry Creditors		472
Rent, Rates, and Insurance	463	
Discounts on Purchases		76
Plant and Machinery	1,000	
Carriage Inwards	250	
Office Salaries and Expenses	484	
Purchases	5,284	
Legal and Audit Charges	33	
Provision for Bad Debts, 1st January, 1948		35
Stock, 1st January, 1948	1,824	
Fixtures and Fittings	200	
Manufacturing Wages	2,122	
Advertising	256	
M. Baines, Capital A/c, 1st January, 1948		1,500
P. Benson, " " "		3,000
Sundry Debtors	1,800	
Discounts on Sales	150	
Commissions Received		50
Travellers' Salaries and Commission	470	
M. Baines, Drawings	445	
P. Benson "	355	
	£15,304	£15,304

Prepare Trading and Profit and Loss Accounts for the year ended 31st December, 1948, and a Balance Sheet at that date, giving effect to the partnership agreement, and providing for the following matters—

(*a*) Stock, 31st December, 1948, £1,909.

(*b*) Items owing not passed through the books are: (i) Advertising, £20; (ii) Audit Fees, £25.

(*c*) £40 of the debit to Rent, Rates, and Insurance is for rates for three months ending 31st March, 1949.

(*d*) Plant and Machinery is to be depreciated at 10 per cent per annum, and Fixtures and Fittings at 5 per cent per annum.

(*e*) The Bad Debts Provision is to be increased to £90.

(*West Riding of Yorkshire, Adapted.*)

CHAPTER V

DEPRECIATION, SINKING FUNDS, PROVISIONS AND RESERVES, RESERVE FUNDS

What is Depreciation? Depreciation is the gradual and permanent decrease in the value of an asset from any cause.

Difference between Depreciation, Fluctuation, and Wear and Tear. Depreciation denotes a *permanent* decrease in value; fluctuation indicates merely a *temporary* decrease or increase of value; wear and tear signifies shrinkage of value arising from use.

Reasons for Charging Depreciation. Unless assets are depreciated, it is obvious that, on the Balance Sheet, their value will be overstated; and the Balance Sheet will not, therefore, be a correct representation of the state of the business. Further, assets such as plant and machinery are held for the purpose of earning income, and the loss arising on those assets through wear and tear is undoubtedly a loss incurred in the earning of such income, and should equitably be charged or set off against it. Lastly, if depreciation was not provided for by charges against profits, additional capital would have to be raised whenever the necessity for replacing the asset arose.

Special Terms and their Meaning. In connexion with the subject of depreciation, special terms are in use, which the student must carefully note. The life of an asset is the number of years that it will continue to be usable or productive. At the end of their life some assets have no value at all, e.g. a Lease, or Patents; other assets, such as Plant and Machinery, have a **residual** or **break-up value,** that is, the value of the material as old or scrap iron. Machinery is said to be **scrapped** or **thrown on the scrap heap** when it is broken up at the end of its period of usefulness, because it is worn out or has been superseded by newer and more efficient machinery. In certain businesses, the possibility of *obsolescence*, i.e. machinery being rendered obsolete by later and better inventions, which will do the same work more quickly and more cheaply, is a very important factor, and influences largely the "rates" of depreciation If the loss sustained by obsolescence is unexpected and very large, it is not carried to Profit and Loss at once, but written off gradually over a number of years; but where such obsolescence can be foreseen, it should be provided for in anticipation.

Repairs, Renewals, and Replacements. To repair means to restore again, to make efficient for all practical purposes. To

renew, means to discard an asset, or some part of it, and to replace with a similar or improved asset or part. It has been argued by some accountants, that, if proper provision is made for repairs and renewals, the necessity for providing for depreciation is thereby obviated. Other accountants maintain that, in spite of constant repairs, there is an inevitable depreciation to be taken into consideration. The second viewpoint would appear to be the more accurate. A pair of shoes, for example, may be repaired many times, but eventually the benefit to be derived is not commensurate with the expenditure.

Methods of Depreciation. There are various principles upon which to arrive at the correct charge against profits—

1. Fixed Instalment Method.
2. Diminishing or Reducing Balance Method.
3. Annuity System.
4. Depreciation Fund Method.
5. Insurance Policy System.
6. Revaluation Process.
7. To charge one sum to cover repairs, renewals, and depreciation.

A provision to be made (on whichever of the principles named above it is calculated) may, as a matter of book-keeping, be entered as a credit on the Asset Account, i.e. to reduce the figure at which the asset stands in the books, or, alternatively, it may be credited to a Fund or Reserve Account, such Fund or Reserve Account being deducted from the Asset Account on the face of the Balance Sheet, or in some cases shown on the liabilities side of the Balance Sheet. Concurrently with all or any of the book-keeping methods just mentioned (and whichever principle of arriving at the charge is used) a specific sum may be set aside either in cash or by way of investment so as to provide liquid funds at the end of the stated period of time. [This question of the setting aside of liquid funds is, in the opinion of the Editors, not essentially connected in any shape or form with any particular method of depreciation.]

Recommendations of the Institute of Chartered Accountants. In recent years the policy of depreciation charges has been carefully viewed. As a result the Institute of Chartered Accountants in England and Wales issued the following recommendations on accounting principles—

1. Provisions for depreciation, amortization, and depletion of fixed assets should be applied on consistent bases from one period to another. If additional provisions prove to be necessary, they should be stated separately in the profit and loss account. Where practicable, fixed assets *in existence at the balance sheet date* should normally be shown in the balance sheet at cost, and the aggregate of the provisions for depreciation, amortization, and depletion should appear as deductions therefrom. The extent to which these provisions are being kept liquid will then be ascertainable from the balance sheet as a whole.

2. Such provisions should be computed on the bases mentioned below as being appropriate to the particular class of asset concerned:

(a) *Goodwill and Freehold Land.*

Depreciation does not arise through use in the business, except in the case of freehold land acquired for purposes such as are referred to in (d) below. Amounts set aside to provide for diminution in value do not constitute a normal charge against revenue, and should be shown separately in the profit and loss account.

(b) *Freehold Buildings, Plant and Machinery, Tools and Equipment, Ships, Transport Vehicles, and similar assets which are subject to depreciation by reason of their employment in the business.*

Provision for depreciation should, in general, be computed on the straight-line method. Assets of very short effective life, such as loose tools, jigs and patterns, may, however, frequently be dealt with more satisfactorily by other methods such as re-valuation, which in no case should exceed cost.

(c) *Leaseholds, Patents, and other assets which become exhausted by the effluxion of time.*

Provision for amortization should be made on the straight-line basis, including, in the case of leaseholds, allowance for the estimated cost of dilapidations at the end of the lease or useful life of the asset if shorter, If a leasehold redemption policy is effected with an insurance company, the charge of the annual premiums to profit and loss account provides a satisfactory method of amortization if supplemented in respect of dilapidations.

(d) *Mines, Oil Wells, Quarries, and similar assets of a wasting character which are consumed in the form of basic raw material or where the output is sold as such.*

Provision for depreciation and depletion should be made according to the estimated exhaustion of the asset concerned. In the case of an undertaking formed for the purpose of exploiting this particular class of asset, if the practice is to make no provision this should be made clear in the accounts, so that shareholders may realize that dividends are, in part, a return of capital.

3. Where a method different from that recommended has hitherto been followed and it is not considered practicable or desirable to make a change in the case of assets already in use, it is suggested that the methods recommended should be followed in cases of assets subsequently acquired.

4. Details of all fixed assets should be kept (preferably in registers specially maintained) to show the cost of each asset, the provisions made for its depreciation and the basis of the provisions made.

5. Amounts set aside out of profits for obsolescence which cannot be foreseen, or for a possible increase in the cost of replacement, are matters of financial prudence. Neither can be estimated with any degree of accuracy. They are in the nature of reserves and should be treated as such in the accounts.

(1) Fixed Instalment Method

Nature and Use. Under this system, a fixed proportion of the original capital outlay is written off annually in order to reduce the asset to zero or residual value at the end of the period, repairs and small renewals being debited to Profit and Loss. This method is suitable for Patents, and also for short Leases which involve little capital outlay, and is sometimes used for Plant and Machinery. Suppose, for instance, Machinery has been purchased at a cost of £4,000; that its estimated life is six years; that its break-up value is £400 Then, £3,600 must be written off in six years, that is,

£600 each year. Or, looking at it from the percentage point of view, we have to write $\frac{3600}{4000}$ or $\frac{9}{10}$ of the amount, that is 90 per cent, off in six years; therefore, 15 per cent of the original cost must be written off each year. Again, supposing a patent had sixteen years to run, it could be written off by $\frac{1}{16}$ of the original cost each year; and at the end of that time the balance of the Patents Account would be extinguished.

Disadvantages. One disadvantage of this method is (for Plant and Machinery) that while the depreciation remains constant, there is an increasing charge to Revenue during the life of the asset; as in the first few years the repairs are light, while in the later years they may be very heavy. Another disadvantage is that any additions to the plant and machinery would throw out the original calculation, and necessitate a fresh one being made; this can be obviated by building up a Depreciation Reserve Account separate from the Machinery Account, e.g.—

MACHINERY

Year		£			
	To Cash . . .	1,000			
1	,, ,, (additions) .	100			
2	,, ,, ,, .	200			

DEPRECIATION (MACHINERY) RESERVE

			Year		£
			1	By P. & L. A/c—10% .	100
			2	,, ,, ,, ,, .	110
			3	,, ,, ,, ,, .	130

Example 1. A Lease is purchased for a term of four years for the sum of £320. Show how the Lease Account would appear in the Ledger during this period, depreciation being written off by equal instalments each year.

In the Lease Account given on page 128, depreciation is $(\frac{320}{320} \times \frac{100}{1})$ = 100 per cent in four years, or at the rate of 25 per cent per annum of the original outlay. Or, from another point of view, £320 has to be written off in four years, which gives us £80 each year to write off the original cost. A Journal entry would be made each year for four years, thus—

Depreciation	*Dr.*	£80	
To Lease	*Cr.*		£80

The amount of the Lease Account not written off would appear on the assets side of the Balance Sheet.

Dr. LEASE *Cr.*

Year		£	Year		£
1	To Cash . . .	320	1	By Depreciation . .	80
				,, Balance c/d . .	240
		£320			£320
2	To Balance b/d . .	240	2	By Depreciation . .	80
				,, Balance c/d . .	160
		£240			£240
3	To Balance b/d . .	160	3	By Depreciation . .	80
				,, Balance c/d . .	80
		£160			£160
4	To Balance b/d . .	80	4	By Depreciation . .	80

(2) Diminishing Balance Method

Nature and Use. By this method a fixed rate per cent is written off the reducing annual balance of the Asset Account each year, in order to reduce it to residual value when its period of usefulness for revenue-earning purposes has expired. Repairs and small renewals are, as under the first method, charged to Profit and Loss. This system is usually adopted for Plant and Machinery, Furniture, Fixtures, Fittings, etc., as such assets have a long life and one which it is difficult to estimate.

Advantages. The advantage of this method of depreciation is that it tends to give a fairly even charge against Revenue each year. For, while depreciation is heavy during the first few years, this is counterbalanced by the repairs being light; and in the later years, when repairs are heavy, this is counterbalanced by the decreasing charge for depreciation.

Mathematical Formula. The rate per cent to write off the diminishing value each year is found by means of the following formula: $P \times \left(\frac{100 - r}{100}\right)^n = RV$ where P denotes the principal, r the required rate per cent, n the number of years, and RV the residual value.

Example 2. Machinery is bought for £2,000. Its life is estimated to be six years, and its break-up value at the end of the period £356. Show the Machinery Account for the six years, writing off depreciation at a fixed rate per cent on the diminishing or reducing value of the asset.

According to the formula: $2000 \times \left(\frac{100 - r}{100}\right)^6 = 356$, which, when reduced, gives

$$r = 100 - 100\sqrt[6]{\cdot 178} = 100 - 100\ (\cdot 7500) \text{ approx.};$$

hence $r = 100 - 75 = 25$ per cent approx.

The Ledger Account of the asset will be as follows—

Dr. MACHINERY *Cr.*

Year		£ s. d.	Year		£ s. d.
1	To Cash . .	2,000 – –	1	By Depreciation	500 – –
				,, Balance c/d .	1,500 – –
		£2,000 – –			£2,000 – –
2	To Balance b/d .	1,500 – –	2	By Depreciation	375 – –
				,, Balance c/d .	1,125 – –
		£1,500 – –			£1,500 – –
3	To Balance b/d .	1,125 – –	3	By Depreciation	281 5 –
				,, Balance c/d .	843 15 –
		£1,125 – –			£1,125 – –
4	To Balance b/d .	843 15 –	4	By Depreciation	210 18 9
				,, Balance c/d .	632 16 3
		£843 15 –			£843 15 –
5	To Balance b/d .	632 16 3	5	By Depreciation	158 4 1
				,, Balance c/d .	474 12 2
		£632 16 3			£632 16 3
6	To Balance b/d .	474 12 2	6	By Depreciation (Adjustment of 10d.)	118 12 2
				,, Balance c/d .	356 – –
		£474 12 2			£474 12 2
7	To Balance b/d .	356 – –			

Reduction of Formula. The reduction of the formula seems to give students a great deal of trouble. A simple method of reducing it is as follows—

Formula— $$2000 \times \left(\frac{100 - r}{100}\right)^6 = 356$$

Divide both sides by 2000, and the following is the result—

$$\left(\frac{100 - r}{100}\right)^6 = \frac{356}{2000} = \frac{178}{1000} = \cdot 178$$

Take the sixth root of both sides, and the result yields—

$$\frac{100 - r}{100} = \sqrt[6]{\cdot 178}$$

Multiply both sides by 100: $= 100 - r = 100\sqrt[6]{\cdot 178}$

Transpose the 100, and change signs, and the result is—

$$r = 100 - 100\sqrt[6]{\cdot 178} = 100 - 100\,(\cdot 7500) \text{ approx.}$$

Hence, $r = 100 - 75 = 25$ per cent approx.

In this case, the cube root of ·178 is ·5625 (approx.); and the square root of ·5625 is ·75. In cases, however, where the root cannot be extracted arithmetically, e.g. the fifth root or the seventh root, recourse must be had to logarithms to obtain the required root.

For instance, in the above example: $\log \cdot 178 = \bar{1}\cdot 2504200$

$$\div \text{ by } 6 = \bar{1}\cdot 8750700 = \log \text{ of } \cdot 7500 \text{ (approx.)}$$

QUESTIONS

1. Define Depreciation. Discriminate between Depreciation, Fluctuation, and Wear and Tear.
2. What are the causes of depreciation?
3. State briefly some of the reasons for charging depreciation.
4. Explain the meaning of the following terms: "Life" of an asset, "residual," or "break-up" value, to scrap, obsolescence. How is the loss sustained by obsolescence treated?
5. State briefly what is meant by the phrase: Repairs, renewals, and replacements.
6. What entries are necessary in the books when an asset is depreciated?
7. What methods of depreciation are there?
8. Explain briefly the nature and use of the "fixed instalment" method of depreciation. Can this method be advantageously used for all assets?
9. Explain briefly the nature and use of the "diminishing balance" method of depreciation. What advantages does this method possess?
10. State the mathematical formula for ascertaining the rate per cent of depreciation, when it is required to write down an asset, at an equal rate each year on the diminishing balance, in order to reduce it to residual value.

Depreciation of Additions to an Asset. The question of how to treat additions to an asset when writing off depreciation on the first occasion after such addition, is rather a complex one. Owing to conflicting views, no less than three different methods obtain. The additions are—

1. Ignored, by writing depreciation off the balance of the Asset Account as at the *beginning* of the year.
2. Included, by writing depreciation off the balance of the Asset Account as at the *end* of the year.
3. Depreciated *proportionately*, a machine purchased about the middle of the year being written down at *half* the annual rate, and so on.

Example 3. Machinery is bought for a sum of £2,000. Additions are made in June in the second year to the extent of £200, and in March of the third year to the amount of £160. Show, by means

of Ledger Accounts, the various methods of dealing with the additions when writing off annual depreciation at the rate of 10 per cent on the diminishing balance.

First Method—

Dr. PLANT AND MACHINERY *Cr.*

Year		£	Year		£
1	To Cash . . .	2,000	1	By Depreciation, 10% £2,000 . .	200
				,, Balance c/d . .	1,800
		£2,000			£2,000
2	To Balance b/d . .	1,800	2	By Depreciation, 10% £1,800 . .	180
	,, Cash (June) . .	200		,, Balance c/d . .	1,820
		£2,000			£2,000
3	To Balance b/d . .	1,820	3	By Depreciation, 10% £1,820 . .	182
	,, Cash (March) .	160		,, Balance c/d . .	1,798
		£1,980			£1,980
4	To Balance b/d . .	1,798			

Second Method—

Dr. PLANT AND MACHINERY *Cr.*

Year		£	Year		£
1	To Cash . . .	2,000	1	By Depreciation, 10% £2,000 . .	200
				,, Balance c/d . .	1,800
		£2,000			£2,000
2	To Balance b/d . .	1,800	2	By Depreciation, 10% £2,000 . .	200
	,, Cash (June) . .	200		,, Balance c/d . .	1,800
		£2,000			£2,000
3	To Balance b/d . .	1,800	3	By Depreciation, 10% £1,960 . .	196
	,, Cash (March) .	160		,, Balance c/d . .	1,764
		£1,960			£1,960
4	To Balance b/d . .	1,764			

Third Method—

Dr. PLANT AND MACHINERY *Cr.*

Year		£	Year		£
1	To Cash . . .	2,000	1	By Depreciation, 10% £2,000 . .	200
				,, Balance c/d . .	1,800
		£2,000			£2,000
2	To Balance b/d . .	1,800	2	By Depreciation, 10% £1,800 . £180; 10% for 6 months on £200 . £10	190
	,, Cash (June) . .	200		,, Balance c/d . .	1,810
		£2,000			£2,000
3	To Balance b/d . .	1,810	3	By Depreciation, 10% £1,810 . £181; 10% for 9 months on £160 . £12	193
	,, Cash (March) .	160		,, Balance c/d . .	1,777
		£1,970			£1,970
4	To Balance b/d . .	1,777			

(3) Annuity System

Nature and Use. Under the Annuity System the purchase of the asset is regarded as an investment of capital which, if employed for other purposes, would be earning a certain rate of interest. Interest at this fixed rate is, therefore, debited to the Asset Account each year, and credited to an Interest and Depreciation Account. The asset and interest are then written down by equal annual instalments until extinguished. This method is used principally for Leases involving considerable outlay spread over a number of years, when it is not desired to replace them at the end of the period. It is not so suitable for Plant and Machinery, as fresh calculations would be necessary each time additions were made. This system, although very scientific, results in an increasing charge against Revenue each year; for, while the depreciation that is debited remains constant, the interest being credited will diminish each year.

If, at the expiration of a Lease, dilapidations have to be provided for, this can best be done by means of the Sinking Fund Method explained later on in this chapter.

Annuity Method Depreciation Tables. The amount to be written off yearly by the Annuity Method (i.e. $\frac{\text{Principal} + \text{Interest}}{-\ \text{Instalment}}$) can be easily calculated from Tables based on the following formula for £1—

$$\frac{1}{\frac{(1 + \text{Interest})^n - 1}{\text{Interest}}} + \text{Interest, or } \frac{\text{Interest}}{\text{Compound Interest}^n} + \text{Interest}$$

where n = number of years. This gives us for five years, at 5 per cent, $\frac{\cdot 05}{\cdot 276281} + \cdot 05$ or $\cdot 180975 + \cdot 05$, that is ·230975; and so on for other rates and years.

The following Table A is sufficient for ordinary book-keeping purposes, and for the working of the exercises at the end of this chapter—

TABLE A

Amount required to write off £1 by the Annuity Method

Years	3%	3½%	4%	4½%	5%
3	·353530	·356933	·360348	·363773	·367208
4	·269028	·272251	·275490	·278744	·282012
5	·218354	·221481	·224627	·227792	·230975
6	·184597	·187668	·190761	·193878	·197017
7	·160506	·163544	·166609	·169701	·172819
8	·142456	·145476	·148527	·151609	·154721
9	·128433	·131446	·134493	·137574	·140690
10	·117230	·120241	·123291	·126378	·129504

Example 4. A Lease is purchased for a term of seven years by payment of £3,000. It is proposed to depreciate the Lease by the Annuity Method, charging 4 per cent interest. Show the Ledger Account of the asset during this period.

Reference to Table A shows that the amount for £1 for seven years at 4 per cent is ·166609. Multiplying this by £3,000, we get £499·827, which (converting the decimal at sight, as explained in Chapter XI on page 359) gives us £499 16s. 6½d.

Dr. LEASE *Cr*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash . .	3,000	–	–	1	By Depreciation	499	16	7
	,, Interest .	120	–	–		,, Balance c/d .	2,620	3	5
		£3,120	–	–			£3,120	–	–
2	To Balance b/d .	2,620	3	5	2	By Depreciation	499	16	7
	,, Interest .	104	16	2		,, Balance c/d .	2,225	3	–
		£2,724	19	7			£2,724	19	7
3	To Balance b/d .	2,225	3	–	3	By Depreciation	499	16	7
	,, Interest .	89	–	1		,, Balance c/d .	1,814	6	6
		£2,314	3	1			£2,314	3	1
4	To Balance b/d .	1,814	6	6	4	By Depreciation	499	16	7
	,, Interest .	72	11	6		,, Balance c/d .	1,387	1	5
		£1,886	18	–			£1,886	18	–
5	To Balance b/d .	1,387	1	5	5	By Depreciation	499	16	7
	,, Interest .	55	9	8		,, Balance c/d .	942	14	6
		£1,442	11	1			£1,442	11	1
6	To Balance b/d .	942	14	6	6	By Depreciation	499	16	7
	,, Interest .	37	14	2		,, Balance c/d .	480	12	1
		£980	8	8			£980	8	8
7	To Balance b/d .	480	12	1	7	By Depreciation	499	16	7
	,, Interest .	19	4	6					
		£499	16	7			£499	16	7

Note. Owing to fractions of a 1d. being neglected there is often a small adjustment to make in the last year.

Calculations in Decimals. In examination work the student is sometimes asked to leave the calculations in decimals instead of reducing them to money. This saves time and labour. The last example, worked in this fashion, would appear as shown on page 135.

(4) Depreciation Fund Principle

Nature and Use. Under this method the asset is allowed to stand in the books at its original cost. A fixed amount, called the

Sinking Fund instalment, is debited to Profit and Loss each year; and a corresponding amount of cash is invested every year in gilt-edged securities, the amount being such as will, during the life of the asset, accumulate, at compound interest, to the sum required to replace it. This system is adopted for Plant and Machinery

Dr. LEASE *Cr.*

Year		£	Year		£
1	To Cash . .	3,000·000	1	By Depreciation	499·827
	,, Interest .	120·000		,, Balance c/d .	2,620·173
		£3,120·000			£3,120·000
2	To Balance b/d .	2,620·173	2	By Depreciation	499·827
	,, Interest .	104·807		,, Balance c/d .	2,225·153
		£2,724·980			£2,724·980
3	To Balance b/d .	2,225·153	3	By Depreciation	499·827
	,, Interest .	89·006		,, Balance c/d .	1,814·332
		£2,314·159			£2,314·159
4	To Balance b/d .	1,814·332	4	By Depreciation	499·827
	,, Interest .	72·573		,, Balance c/d .	1,387·078
		£1,886·905			£1,886·905
5	To Balance b/d .	1,387·078	5	By Depreciation	499·827
	,, Interest .	55·483		,, Balance c/d .	942·734
		1,442·561			£1,442·561
6	To Balance b/d .	942·734	6	By Depreciation	499·827
	,, Interest .	37·709		,, Balance c/d .	480·616
		980·443			£980·443
7	To Balance b/d .	480·616	7	By Depreciation (Adjustment of ·013 or 3d.)	499·840
	,, Interest .	19·224			
		£499·840			£499·840

and wasting assets whenever it is desired not merely to write off an asset, but also to make provision for its replacement at the end of its life.

Other Terms. The Depreciation Fund Account is also designated by other names, such as Amortization Fund Account, Sinking Fund Account, Redemption Fund Account. The first term is more appropriate to the writing off of intangible expenditure,

i.e. such as is not represented by assets, e.g. Debenture Discount; the last two terms are more suitable for the repayment of loans and debentures. Depreciation Fund Account is the best term to use in connexion with the replacement of a wasting asset.

Object of Investing Cash. The object of investing cash each year and allowing it to accumulate is that the Fund becomes available (on realizing the Investments) whenever it is required. If a separate sum of money were not thus provided, the cash required at the end of the period would have to be taken from the ordinary bank balance; this might cause serious inconvenience to the business, and if the amount were very large, might cripple it. If this could not be done, fresh capital would have to be provided. The great advantage of the Sinking Fund Investment, therefore, is that it provides the money outside the business, and prevents any disturbance of the financial position.

Students often experience considerable difficulty in understanding these Sinking Funds and their corresponding Investments. It is because the fact that profit itself is very often not a tangible item, but only a mere paper balance. If goods are sold for £120, which cost £100, it is true a profit of £20 is made, but the point is, if the goods had been sold *for cash*, then the profit is a realized one; but if these goods were sold *on credit*, the profit exists only on paper, and will not be realized until the debt is paid.

With reference to the Sinking Fund and its Investments, there is a twofold action. The Sinking Fund Account is being built up either by charges against, or appropriations of, *profits*, while the Investment Account is being built up by investment of *cash*. "Putting by and investing *profits*" is a term wrongly used in this connexion; what is really done, however, is to invest *cash* on account of profits. Again, an asset cannot be purchased with profits, but only with cash or its equivalent. It does not follow that having a Depreciation Fund Account (or a Sinking Fund Account) amounting to £3,000, that amount in cash is in hand in respect of it. The bank balance at this particular time might be very small. The object of the Sinking Fund Investments is to make sure that a separate sum of cash, i.e. independent of the ordinary bank balance, shall be available (by selling the investments) whenever it is required.

Procedure at End of Period. At the end of the period the Investments will be realized, the cash received being debited in the Cash Book "*To Sinking Fund Investment Account*," and posted to the credit of the named account in order to close it. The Depreciation Fund Account is transferred to the Asset Account, and thereby closes the latter. This shows very clearly that a Depreciation Fund is a charge against profits and *not* an appropriation of profits. The cash is now in hand with which to purchase the new asset Should, however, the investments realize more or less than the required sum

—and this is often the case in actual practice—the difference of the Investment Account must be adjusted by a debit or credit to Profit and Loss, as the case may be.

Sinking Fund Depreciation Tables. The Sinking Fund amount is calculated from tables based on the following formula—

$$\frac{1}{\dfrac{(1 + \text{Interest})^n - 1}{\text{Interest}}} \quad \text{or} \quad \frac{\text{Interest}}{\text{Total amount of Compound Interest in } n \text{ years}}$$

This gives the amount to be set aside yearly, at a given rate of interest, to provide £1 at the end of n or the given number of years.

For five years at 5 per cent the amount shows $\frac{\cdot 05}{\cdot 276281}$ or ·180975 and so on for other years at other rates.

The following table, which is sufficient for ordinary book-keeping purposes, should prove very useful to the student—

TABLE B

Annual Sinking Fund Instalments to provide £1

Years	3%	3½%	4%	4½%	5%
3	·323530	·321933	·320348	·318773	·317208
4	·239028	·237251	·235490	·233744	·232012
5	·188354	·186481	·184627	·182792	·180975
6	·154597	·152668	·150761	·148878	·147017
7	·130506	·128544	·126609	·124701	·122819
8	·112456	·110476	·108527	·106609	·104721
9	·098433	·096446	·094493	·092574	·090690
10	·087230	·085241	·083291	·081378	·079504

Example. £3,000 is paid for a Lease for a term of seven years. It is desired to write off this amount by means of the Depreciation Fund System, it being necessary to raise a similar amount, at 4 per cent compound interest, in order to replace the Lease at the end of the period. Show the Ledger Accounts dealing with this matter.

Referring to Table B, we find the amount required to be invested yearly at 4 per cent in order to produce £1 at the end of seven years is ·126609. The amount required to produce £3,000 will, therefore, be £3,000 × ·126609, which gives us £379·827, or £379 16s. 6½d.

The following entries will be necessary in the books—

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		Dr. £ s. d.	Cr. £ s. d.
Year 1	Profit and Loss A/c	379 16 7	
	To Depreciation Fund A/c . .		379 16 7
	Amount of annual instalment.		

and so on for seven years.

CASH BOOK

	Receipts	Bank £ s. d.
Year 2	To Depreciation Fund A/c (*interest on first year's investment*)	15 3 10

and similar entries for other years.

CASH BOOK

	Payments	Bank £ s. d.
Year 1	By Depreciation Fund Investment A/c . . . (*Investment of Cash equal to first year's instalment.*)	379 16 7
2	,, Depreciation Fund Investment A/c . . . . (*Investment of Cash equal to second year's instalment plus interest on first year's instalment.*)	395 - 5

and similar entries for other years.

BALANCE SHEET

Liabilities	£ s. d.	*Assets*	£ s. d.
(Year 1) Depreciation Fund Account . . .	379 16 7	(Year 1) Depreciation Fund Investment Account .	379 16 7
(Year 2) Depreciation Fund Account . . .	774 17 -	(Year 2) Depreciation Fund Investment Account .	774 17 -

The reason why the Depreciation Fund Investment Account does not, on the Balance Sheet, always correspond in amount with the Depreciation Fund Account, is that the instalment is charged against profits at the end of the year (say 31st Dec.), but the corresponding investment of cash may not take place until the first month (say January) of the succeeding year. For the sake of clearness, however, the dates in the worked example have been made to agree.

The Ledger Accounts would appear as under—

Dr. LEASE Cr.

Year		£ s. d.	Year		£ s. d.
1 Jan. 1	To Cash	3,000 - -	7 Dec. 31	By Depreciation Fund Account	3,000 - -

Dr. DEPRECIATION FUND Cr.

Year		£ s. d.	Year		£ s. d.
1 Dec. 31	To Balance c/d	379 16 7	1 Dec. 31	By Profit and Loss	379 16 7
2 Dec. 31	To Balance c/d	774 17 -	2 Jan. 1	By Balance b/d	379 16 7
			Dec. 31	,, Cash (Interest)	15 3 10
			,, 31	,, Profit and Loss	379 16 7
		£774 17 -			£774 17 -
3 Dec. 31	To Balance c/d	1,185 13 5	3 Jan. 1	By Balance b/d	774 17 -
			Dec. 31	,, Cash (Interest)	30 19 10
			,, 31	,, Profit and Loss	379 16 7
		£1,185 13 5			£1,185 13 5
4 Dec. 31	To Balance c/d	1,612 18 6	4 Jan. 1	By Balance b/d	1,185 13 5
			Dec. 31	,, Cash (Interest)	47 8 6
			,, 31	,, Profit and Loss	379 16 7
		£1,612 18 6			£1,612 18 6
5 Dec. 31	To Balance c/d	2,057 5 5	5 Jan. 1	By Balance b/d	1,612 18 6
			Dec. 31	,, Cash (Interest)	64 10 4
			,, 31	,, Profit and Loss	379 16 7
		£2,057 5 5			£2,057 5 5
6 Dec. 31	To Balance c/d	2,519 7 10	6 Jan. 1	By Balance b/d	2,057 5 5
			Dec. 31	,, Cash (Interest)	82 5 10
			,, 31	,, Profit and Loss	379 16 7
		£2,519 7 10			£2,519 7 10
7 Dec. 31	To Amount transferred to Lease A/c	3,000 - -	7 Jan. 1	By Balance b/d	2,519 7 10
			Dec. 31	,, Cash (Interest)	100 15 6
			,, 31	,, Profit and Loss (Adjustment of 1d.)	379 16 8
		£3,000 - -			£3,000 - -

Dr. DEPRECIATION FUND INVESTMENT[1] *Cr.*

Year		£ s. d.	Year		£ s. d.
1 Dec. 31	To Cash	379 16 7	1 Dec. 31	By Balance c/d	379 16 7
2 Jan. 1	To Balance b/d	379 16 7	2 Dec. 31	By Balance c/d	774 17 –
Dec. 31	,, Cash (Instalment and Interest)	395 – 5			
		£774 17 –			£774 17 –
3 Jan. 1	To Balance b/d	774 17 –	3 Dec. 31	By Balance c/d	1,185 13 5
Dec. 31	,, Cash	410 16 5			
		£1,185 13 5			£1,185 13 5
4 Jan. 1	To Balance b/d	1,185 13 5	4 Dec. 31	By Balance c/d	1,612 18 6
Dec. 31	,, Cash	427 5 1			
		£1,612 18 6			£1,612 18 6
5 Jan. 1	To Balance b/d	1,612 18 6	5 Dec. 31	By Balance c/d	2,057 5 5
Dec. 31	,, Cash	444 6 11			
		£2,057 5 5			£2,057 5 5
6 Jan. 1	To Balance b/d	2,057 5 5	6 Dec. 31	By Balance c/d	2,519 7 10
Dec. 31	,, Cash	462 2 5			
		£2,519 7 10			£2,519 7 10
7 Jan. 1	To Balance b/d	2,519 7 10	7 Dec. 31	By Cash (*proceeds of realization of investments*)	3,000 – –
Dec. 31	,, Cash	480 12 2			
		£3,000 – –			£3,000 – –

Note 1. The cash instalment at the end of the last year will not be invested, but will be transferred to the Investment Account money so that the full amount will be in hand with which to purchase the new Lease.

Note 2. The Lease Account and the Depreciation Fund Investment Account will appear on the assets side of the Balance Sheet until the end of the period. The Depreciation Fund Account will show on the liabilities side of the Balance Sheet until the end of the period; or, better still, on the assets side as a deduction from the Lease.

Income Tax on Interest from Investments. In the worked example, the investments have been taken at par, and income tax has been ignored for the sake of simplicity, but, in practice, interest on investments would be received *less tax*. Sometimes instructions are given to invest the interest instead of remitting it; and in such cases a Cash Book entry as previously shown would not be required, but a Journal entry would be necessary to debit the Investment Account and credit the Depreciation Fund Account with the amount of such interest. In any case, however, the interest is always invested. To provide for the amount lost by reason of the tax, a similar sum is debited each year to Profit and Loss Account, and credited to the Depreciation Fund Account.

[1] As the Funds would probably be invested in *various* securities, there would be several accounts amounting to this in the aggregate.

(5) Insurance Policy System

Nature and Use. Under this method an insurance policy is taken out for the amount required to replace the asset at the end of the period of its life. The procedure is not unlike that under the Depreciation Fund System, except that the cash, instead of being invested in gilt-edged securities, is paid away in premiums to the Insurance Company. Although the interest thus obtained is lower, yet there is not the risk of loss on realization, as in the case of outside investments subject to market fluctuations.

Entries in the Books. The entries in the financial books will vary according as a Policy Account is opened or not.

(a) When a Policy Account is Opened

In some cases, the amount paid as a yearly premium is debited to Lease Policy Account, and is regarded as an investment which increases by the addition of interest each year. At the date of the maturity of the policy the amount standing to the debit of the Lease Policy Account would agree (approximately) with the amount received from the Insurance Company. If, however, a balance were shown, this could readily be adjusted. In the event of the policy being surrendered before maturity, the amount actually received would be credited to the Lease Policy Account, and any loss shown on this account would be written off.

The entries in the books will be—

(*a*) For the purchase of the Lease—
By Lease on the *Cr.* side of Cash Book.

(*b*) For the annual premiums paid to Insurance Company—
By Lease Policy Account on *Cr.* side of Cash Book.

(*c*) For charging the Insurance, which takes the place of the annual depreciation, against Revenue—

(JOURNAL)

Profit and Loss Account	*Dr.*
To Lease Redemption Fund Account . .	*Cr.*

(*d*) For debiting the Interest on balance of Lease Policy Account—

(JOURNAL)

Lease Policy Account	*Dr.*
To Lease Redemption Fund Account . .	*Cr.*

When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Policy Account, any balance being written off. The cash remains in hand ready to purchase the new lease. The Lease Redemption Fund Account will be closed by transfer to the (old) Lease Account. Until the

end of the period, the Lease Account and the Lease Policy Account will figure on the assets side of the Balance Sheet, while the Lease Redemption (or Depreciation) Fund Account will be shown on the liabilities side of the Balance Sheet.

Some accountants hold the view that the Policy Account should be maintained at surrender value. Where such a system is in use, the entries are as above, except that no interest is charged, and in order to keep the Policy Account at its surrender value, an adjustment is necessary each year.

In the early years, when the surrender value is less than the amount paid for premiums, it would be necessary to credit Lease Policy Account and debit either Lease Redemption Fund Account or Profit and Loss Account; and, in the later years, when the surrender value exceeds the premiums paid, a reverse entry would be required. As an example, assume a premium of £100 and a nominal surrender value immediately after payment, say, £5. We should have to credit Policy Account with £95, and either debit Lease Redemption Fund Account (leaving a balance of only £5); or the Lease Redemption Fund Account could be left at the full amount (£100) and the Profit and Loss Account debited with the £95, in addition to the £100 already charged for insurance. As there would be no intention of discontinuing the policy, the above method is not recommended, and there seems to be no more need to keep the policy at surrender value than there is to write down new machinery to break-up price.

(b) When a Policy Account is not Opened

The entries in the books will be as follows—

(*a*) For the purchase of the Lease—

By Lease on the *Cr.* side of the Cash Book.

(*b*) For the annual premiums paid to the Insurance Company—

By Lease Insurance on the *Cr.* side of the Cash Book.

(*c*) For charging the Insurance, which takes the place of the annual depreciation, to Revenue—

(JOURNAL)

Profit and Loss A/c	*Dr.*
To Lease Insurance A/c	*Cr.*

The Lease Account remains open in the books until the end of the period, figuring each year on the assets side of the Balance Sheet. When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Account, thus closing it, and leaving in hand the money with which to purchase the new lease (or other asset, as the case may be).

(6) Revaluation Process

Nature and Use. This method involves the process of stock-taking and valuing. It is adopted for assets which cannot always conveniently be dealt with under the other methods, namely, horses, casks, bottles, packages, loose tools, patterns, models, moulds, trade-marks, copyrights, investments, etc. With many of these assets special considerations have to be taken into account. The difference arising from the revaluation is debited to Profit and Loss Account and credited to the Asset Account. If, however, the difference is a profit, instead of a loss, such appreciation is credited to Profit and Loss Account and debited to the Asset Account. Such instances, however, are rare. In certain cases, as with Investments, a loss or gain on revaluation is not carried to the Asset Account at all, but to a Reserve Account, as the difference may not be permanent, but only temporary.

Disadvantage of this Method. One disadvantage of writing off depreciation by this revaluation process is, that while the asset is rendering virtually the same services to the business year by year, the business is charged with very unequal sums each year in respect of these services.

(7) Charging one Sum to cover Repairs, Renewals, and Depreciation

Nature and Use. As the name implies, this method is one in which a single amount is debited to Revenue annually for Repairs, Renewals, and Depreciation. The working of the method is shown in the illustration shown on page 144.

It will be noticed that the additions are debited to Plant Account, and that the Repairs and Renewals are debited to Depreciation Account.

The balance of the Depreciation Account (which must always be a credit balance) shows the net amount set aside for depreciation and renewals. If the account became a debit, it would be evidence that the provision had not been adequate. When this method is used, it is desirable that the assets be re-valued periodically, and it may also be necessary after a term of years to vary the annual amount set aside.

There is frequently difficulty in discriminating between "Repairs" and "Renewals"; and as the latter may safely be added to capital where adequate depreciation has been written off, there may be a temptation to do this when it is not justified. Method (7) obviates that difficulty.

Depreciation of Loose Tools, etc. In engineering firms, where they make their own tools, the stocks of such at the commencement and the close of the financial period are entered in the Trading Account. The cost of making the tools is included in the Materials

and Wages Accounts; as these two items are both debited to Trading Account, any difference between the two stocks of tools is, therefore, a proper charge to the same Account.

Dr. PLANT *Cr.*

1937		£			
Dec. 31	To Cash . .	10,000			
1938					
Dec. 31	,, Additions .	1,000			
		11,000			
1939					
Dec. 31	,, ,, .	2,000			
		£13,000			

Dr. DEPRECIATION *Cr.*

1938		£	1938		£
Dec. 31	To Repairs and Renewals .	50	Dec. 31	By P. and L. A/c 5% on £10,000 .	500
,, 31	,, Balance . .	450			
		£500			£500
1939			1938		
Dec. 31	To Repairs and Renewals .	100	Dec. 31	By Balance . .	450
,, 31	,, Balance . .	900	1939 Dec. 31	,, P. and L. A/c 5% on £11,000	550
		£1,000			£1,000
1940			1939		
Dec. 31	To Repairs and Renewals .	300	Dec. 31	By Balance . .	900
,, 31	,, Balance . .	1,250	1940 Dec. 31	,, P. and L. A/c 5% on £13,000	650
		£1,550			£1,550
			1940		
			Dec. 31	By Balance . .	£1,250

Rates of Depreciation generally Adopted. The following are the rates of depreciation generally adopted, though it is quite possible that special circumstances may make them higher or lower—

Freehold Land and Buildings, 1%–3% p.a.
Leasehold Land and Buildings, written off over the period of the lease.
Plant and Machinery, 5%–25% p.a.

Carts, Vans, Motor Lorries, etc., 10%–25% p.a.

Patents (life 16 years), $\frac{1}{16}$ of original cost each year. There is, sometimes, as with Trade Marks, a residual value in the form of Goodwill caused by the trade these things have created.

Furniture, Fixtures, and Fittings, $2\frac{1}{2}$%–$7\frac{1}{2}$% p.a.

Blast Furnaces, Gas Retorts, and Chemical Plant (subject to rapid depreciation and constant repair with little or no break-up value), the original cost divided by the number of years' life.

Engines (*movable*), 10%; (*fixed*), $7\frac{1}{2}$% p.a.

Boilers (*high pressure*), 15%; (*low pressure*), 10% p.a.

Driving Gear, 5%–$7\frac{1}{2}$% p.a.

Rolling Stock—

Locomotives, 10% p.a.

Wagons (life about 15 years), $7\frac{1}{2}$% p.a.

Ships (life about 20 years), 5% p.a.

Casks (in breweries, distilleries, oil refineries), 10%–20% p.a., or re-valued yearly.

The above rates, except where otherwise stated, are for depreciation on diminishing balances, normal conditions and hours of working being assumed.

QUESTIONS

1. What methods are there in vogue with reference to the depreciation of "additions" to an asset? Give examples to illustrate your answer.
2. Explain briefly the nature and use of the "annuity system" of depreciation. What disadvantage attaches to it?
3. What is meant by "Depreciation Tables"? Explain briefly their construction and use.
4. Explain briefly the nature and use of the "depreciation fund principle" of depreciation. What other terms are used for Depreciation Fund?
5. What object is sought by investing cash on account of a Depreciation Fund? Is profit ever invested?
6. State briefly the procedure, at the end of the period, in connexion with a Depreciation Fund Investment.
7. In what different ways can provision be made for depreciation of a Lease? Give examples.
8. How is the loss of interest on investments, by reason of income tax, adjusted in Depreciation Funds and Sinking Funds?
9. Explain briefly the nature and use of the "insurance policy system" of depreciation.
10. State briefly the entries required in the books under the "insurance policy method" of depreciation—
    (*a*) When a Policy Account is opened.
    (*b*) When a Policy Account is not opened.

    State also in each case the procedure when the insurance policy matures.

SINKING FUNDS

Definition. A Sinking Fund is either (1) a charge against profits in order to provide for the replacement of a wasting asset such as

a Lease, Plant and Machinery, etc., or (2) an appropriation of profits to repay a liability such as a Loan or Debentures. In each case, however, there is a corresponding amount of *cash* invested, so that the Sinking Fund may be immediately available when required, namely, by realizing the investments. An example of a Sinking Fund to replace an asset has already been given under DEPRECIATION; an example of a Sinking Fund to repay a liability is shown hereunder—

Example. A sum of £6,000 is borrowed for a term of six years. It is resolved to provide for its repayment by means of a Sinking Fund, reckoning interest at 3 per cent per annum. Show the Ledger Accounts thereof over the whole period.

Income Tax. As previously mentioned, the interest on the investments is received *less tax* at the current rate for unearned income. To provide for this loss, a similar amount is debited to the Appropriation Account and credited to the Loan Redemption Fund Account. The Ledger Account of the previous example would then appear as on page 148.

Dr. LOAN REDEMPTION FUND INVESTMENT *Cr.*

Year		£ s. d.	Year		£ s. d.
1	To Cash . .	927 11 8	1	By Balance c/d .	927 11 8
2	To Balance b/d	927 11 8	2	By Balance c/d .	1,882 19 11
	,, Cash (Instalment plus Interest) .	955 8 3			
		£1,882 19 11			£1,882 19 11
3	To Balance b/d	1,882 19 11	3	By Balance c/d .	2,867 1 5
	,, Cash . .	984 1 6			
		£2,867 1 5			£2,867 1 5
4	To Balance b/d	2,867 1 5	4	By Balance c/d .	3,880 13 4
	,, Cash . .	1,013 11 11			
		3,880 13 4			£3,880 13 4
5	To Balance b/d	3,880 13 4	5	By Balance c/d .	4,924 13 5
	,, Cash . .	1,044 – 1			
		£4,924 13 5			£4,924 13 5
6	To Balance b/d	4,924 13 5	6	By Cash . .	6,000 – –
	,, Cash . .	1,075 6 7			
		£6,000 – –			£6,000 – –

Dr. LOAN Cr

Year		£	s.	d.	Year		£	s.	d.
6	To Cash (repaid) .	6,000	–	–	1	By Cash (borrowed) .	6,000	–	–

Dr. LOAN REDEMPTION FUND Cr

Year		£	s.	d.	Year		£	s.	d.
1	To Balance c/d	927	11	8	1	By Appropriation A/c . .	927	11	8
2	To Balance c/d	1,882	19	11	2	By Balance b/d .	927	11	8
						,, Cash (Interest) . .	27	16	7
						,, Appropriation A/c . .	927	11	8
		£1,882	19	11			£1,882	19	11
3	To Balance c/d	2,867	1	5	3	By Balance b/d .	1,882	19	11
						,, Cash (Interest) . .	56	9	10
						,, Appropriation A/c . .	927	11	8
		£2,867	1	5			£2,867	1	5
4	To Balance c/d	3,880	13	4	4	By Balance b/d .	2,867	1	5
						,, Cash (Interest) . .	86	–	3
						,, Appropriation A/c . .	927	11	8
		£3,880	13	4			£3,880	13	4
5	To Balance c/d	4,924	13	5	5	By Balance b/d .	3,880	13	4
						,, Cash (Interest) . .	116	8	5
						,, Appropriation A/c . .	927	11	8
		£4,924	13	5			£4,924	13	5
6	To Transfer to General Reserve A/c. .	6,000	–	–	6	By Balance b/d .	4,924	13	5
						,, Cash (Interest) . .	147	14	10
						,, Appropriation A/c . . (Adjustment of 1d.)	927	11	9
		£6,000	–	–			£6,000	–	–

Difference between a Sinking Fund to replace a Wasting Asset, and a Sinking Fund to repay a Liability. The difference should be very carefully noted by the student. In the first case, the accumulated profits are transferred to the Asset Account in order to close the latter. In the second case, the accumulated profits remain unused (the liability being repaid, not with profits, but with *cash* on account of these profits), and are transferred to Reserve Account. It shows very clearly that a Sinking Fund to replace a wasting asset is a *charge against* profits, and not an *appropriation of* profits, because the accumulations out of revenue are required, at the end of the period, to extinguish the Asset Account. Instead, therefore, of the asset being depreciated year by year, as in ordinary

Dr. LOAN REDEMPTION FUND *Cr*

Year		£ s. d.	Year		£ s. d.
1	To Balance c/d	927 11 8	1	By Appropriation A/c	927 11 8
2	To Balance c/d	1,882 19 11	2	By Balance b/d	927 11 8
				,, Cash (Interest less tax)	20 17 5
				,, Appropriation A/c (tax)	6 19 2
				,, Appropriation A/c	927 11 8
		£1,882 19 11			£1,882 19 11
3	To Balance c/d	2,867 1 5	3	By Balance b/d	1,882 19 11
				,, Cash (Interest less tax)	42 7 4
				,, Appropriation A/c (tax)	14 2 6
				,, Appropriation A/c	927 11 8
		£2,867 1 5			£2,867 1 5
4	To Balance c/d	3,880 13 4	4	By Balance b/d	2,867 1 5
				,, Cash (Interest less tax)	64 10 2
				,, Appropriation A/c (tax)	21 10 1
				,, Appropriation A/c	927 11 8
		£3,880 13 4			£3,880 13 4
5	To Balance c/d	4,924 13 5	5	By Balance b/d	3,880 13 4
				,, Cash (Interest less tax)	87 6 4
				,, Appropriation A/c (tax)	29 2 1
				,, Appropriation A/c	927 11 8
		£4,924 13 5			£4,924 13 5
6	To Transfer to General Reserve	6,000 – –	6	By Balance b/d	4,924 13 5
				,, Cash (Interest less tax)	110 16 1
				,, Appropriation A/c (tax)	36 18 9
				,, Appropriation A/c (Adjustment of 1d.)	927 11 9
		£6,000 – –			£6,000 – –

Note. The rate of tax has been taken as 5s. in the £ for convenience.

cases, it is depreciated in its entirety at the end of the period. Hence, the Sinking Fund instalment, being equivalent to the annual depreciation, must be debited to the *Profit and Loss Account*, and not to the Appropriation Account. In the case, however, of a Sinking Fund to repay a Liability, the accumulated profits, as we have seen, remain unused at the end of the period. This shows that they are actual appropriations of profit. Hence the Sinking Fund instalment, in such cases, is debited to the *Appropriation Account*, and not to the Profit and Loss Account.

RESERVES AND PROVISIONS

For many years it has been difficult to form a fair appreciation of the financial position of a company from the information disclosed in the Profit and Loss Account and in the Balance Sheet.

In particular the position is confused by the fact that the terms "reserves" and "provisions" were regarded as interchangeable.

Recommendation Number 6 of the Accounting Principles stated by the Institute of Chartered Accountants in England and Wales clarifies the position as follows—

"(1) The following distinction should be made between reserves which are free and those in the nature of provisions for specific requirements; the latter should preferably be described as 'provisions.'

"(*a*) The term 'reserve' should be used to denote amounts set aside out of profits and other surpluses which are not designed to meet any liability, contingency, commitment or diminution in value of assets known to exist as at the date of the Balance Sheet.

"(*b*) The term 'provision' should be used to denote amounts set aside out of profits or other surpluses to meet—

"(1) specific requirements the amounts whereof can be estimated closely; and

"(2) specific commitments, known contingencies and diminutions in values of assets existing as at the date of the Balance Sheet where the amounts involved cannot be determined with substantial accuracy."

It must be understood that estimated sums set aside to meet liabilities of the nature of accrued charges, e.g. telephone, rates, printing and stationery or trade creditors, are not provisions.

A provision is made to provide for such costs as wear and tear of plant and machinery.

A reserve on the other hand is not a charge against profits but an appropriation of profits normally available for distribution to the owner(s) of the business. It is possible to distribute such profit at a later date provided it has not been classified as a "capital

reserve" in the case of a company operating under the Companies Act, 1948, in which case distribution could not take place through the Profit and Loss Account.

At first sight it is difficult for students to realize the signification of the items "provision" and "reserve."

Some thought will clarify the issue if made with practical examples as follows—

Suppose there is a charge which is difficult to determine, e.g. depreciation, and no estimated charge is made in the Profit and Loss Account. This would result in higher profits being stated and consequently possibly greater distribution of income. To prevent such a result a provision is made by debiting Depreciation Account and crediting "provision for depreciation," thus reducing profits by the amount of the determined depreciation figure.

Supposing on the other hand a reasonable estimation has been made of the profit. It is decided that it is inadvisable to spend all the profit by distribution to the owners of the business but rather to save some for a possible trade depression or even to strengthen the general financial stability of the business. A debit would be made in the Profit and Loss Appropriation Account and a credit to General Reserve Account. At a later date such a sum may be distributed to the owners.

On the other hand assume a person borrows cash in order to commence a business, agreeing to repay the cash out of profits. He will be unable to spend all his profits and at the same time repay the loan out of profits. Effectively the same is true of a limited company, so appropriations for reserves of this nature may be for the repayment of capital sums and may be called capital reserves and are not free for distribution or spending.

Example. A Repairs and Renewals Provision is created by charging Revenue each year with a fixed amount of £150. The repairs and renewals for the ensuing four years are: (1) £136; (2) £108; (3) £189; (4) £117. Show the Journal, Ledger, and Balance Sheet entries relating to the above.

JOURNAL

Year		*Dr.* £	*Cr.* £
1	Profit and Loss A/c	150	
	To Repairs and Renewals Provision A/c .		150
2	Repairs and Renewals Provision A/c . .	136	
	To Repairs A/c		136
	Profit and Loss A/c	150	
	To Repairs and Renewals Provision A/c .		150
3	Repairs and Renewals Provision A/c . .	108	
	To Repairs A/c		108

JOURNAL—(*contd.*)

		Dr.	Cr.
	Profit and Loss A/c	150	
	To Repairs and Renewals Provision A/c .		150
4	Repairs and Renewals Provision A/c . .	189	
	To Repairs A/c		189
	Profit and Loss A/c	150	
	To Repairs and Renewals Provision A/c .		150
5	Repairs and Renewals Provision A/c . .	117	
	To Repairs A/c		117
	Profit and Loss A/c	150	
	To Repairs and Renewals Provision A/c .		150

Dr. REPAIRS *Cr.*

Year		£	Year		£
2	To Cash . . .	136	2	By Repairs and Renewals Provision A/c .	136
3	To Cash . . .	108	3	By Repairs and Renewals Provision A/c .	108
4	To Cash . . .	189	4	By Repairs and Renewals Provision A/c .	189
5	To Cash . . .	117	5	By Repairs and Renewals Provision A/c .	117

Dr. REPAIRS AND RENEWALS PROVISION *Cr.*

Year		£	Year		£
1	To Balance c/d . .	150	1	By Profit and Loss A/c .	150
2	To Repairs A/c . .	136	2	By Balance b/d . .	150
	,, Balance c/d . .	164		,, Profit and Loss A/c .	150
		£300			£300
3	To Repairs A/c . .	108	3	By Balance b/d . .	164
	,, Balance c/d . .	206		,, Profit and Loss A/c .	150
		£314			£314
4	To Repairs A/c . .	189	4	By Balance b/d . .	206
	,, Balance c/d . .	167		,, Profit and Loss A/c	150
		£356			£356
5	To Repairs A/c . .	117	5	By Balance b/d . .	167
	,, Balance c/d . .	200		,, Profit and Loss A/c .	150
		£317			£317
			6	By Balance b/d . .	200

BALANCE SHEET (AT END OF YEAR)

Year	*Liabilities*		£
1	Repairs and Renewals Provision A/c . .		150
2	Repairs and Renewals Provision A/c . .		164
3	Repairs and Renewals Provision A/c . .		206
4	Repairs and Renewals Provision A/c . .		167
5	Repairs and Renewals Provision A/c . .		200

Note. If, owing to excessive expenditure in any year, the balance of the Repairs and Renewals Provision Account is placed temporarily in debit, such balance would still be carried to the Balance Sheet, to be recouped in subsequent years. This would, however, be a clear indication that an insufficient amount had been provided in the past.

PROVISION AND RESERVE FUNDS

It is now recommended that where the term Fund is used the amount should be represented by an investment which is distinct from the ordinary cash resources of the business.

MARINE INSURANCE FUND

Object. The object of a Marine Insurance Fund is to enable large steamship companies to insure their own vessels, instead of paying premiums to outside insurance companies. Part of a ship or ships, or part of a fleet, is usually insured first, the remainder being insured with Lloyd's or other offices. This is done in order to prevent a heavy loss falling on the Fund while small, and possibly extinguishing it. As the Fund grows, the internal insurance operations are extended.

Method of Procedure. A certain amount of profit is appropriated year by year and credited to a Marine Insurance Fund, which is separately invested and allowed to accumulate, the interest received on such investments being also invested. The proportion applicable to each ship, an amount at least equal to the outside insurance premium, is debited to the voyage account and credited to the fund. The fund is also debited with all losses, average claims, salvage claims, reinsurances, expenses of administration, and losses (if any) on sale of the investments; it is credited with refunds,

salvages, and interest accrued on the investments. The credit balance of the fund figures year by year on the liabilities side of the Balance Sheet, and the investments on the assets side.

Division of Profits. When the fund, after a proper valuation is in excess of contingencies, the surplus is considered to be profit divisible like other profits.

SECRET RESERVES

A **Secret Reserve** is a surplus, the existence of which is not shown on the Balance Sheet.

How Secret Reserves are Made. Secret Reserves are made in various ways—

1. By excessive depreciation of assets, such as writing down premises, investments, etc., below their proper value.

2. By undervaluation or omission of assets. Assets may be shown at cost though they have greatly appreciated. Stock-in-trade may be valued much below its actual price. Some companies omit their goodwill, though it may be of enormous value. The Bank of England omits from its Balance Sheet the value of its premises.

3. By creating unnecessary or excessive Reserves for Bad Debts, Discounts, etc., or for fictitious liabilities.

4. By charging capital expenditure to revenue, as, for instance, debiting Additions to Buildings to the Profit and Loss Account instead of to the Buildings Account. On the Balance Sheet the Buildings would thus appear at less than their proper value.

Advantages of Secret Reserves. The advantages claimed for them are—

1. They promote financial stability. Extraordinary losses can be met out of such "undisclosed" or "hidden surpluses" instead of out of Revenue, thus preventing the dividend being reduced and public confidence shaken. Banks and insurance companies often have recourse to such methods.

2. They enable a normal rate of dividend to be maintained—not only for the above reason (1), but also because they enable unduly fluctuating profits to be controlled, and steady, progressive results to be shown.

3. They advance the interests of the undertaking. By means of secret or "inner" reserves, huge profits can be concealed from business rivals, whereas the publication of such profits would stimulate competition, and perhaps injure the company's trade.

Disadvantages of Secret Reserves. The objections raised against the practice of creating secret reserves are—

1. The shareholders have not a full knowledge of the company's affairs, inasmuch as the published accounts are inaccurate and

misleading. The Trading and Profit and Loss Accounts do not show the true profits. The Balance Sheet is not a correct representation of the state of affairs, because some of the liabilities may be overstated, while some of the assets may be undervalued and even omitted altogether.

2. Secret Reserves are dangerous resources. They may be utilized to meet exceptional losses sustained through depreciation of investments, etc.; they can, with equal facility, be used to conceal losses arising from bad management or reckless speculation.

3. Concealment of facts and manipulation of figures are bad in principle; and while they may, sometimes, serve the company's interests, they may also be, and frequently are by unscrupulous directors, used to the company's detriment. Suspicions may be aroused which will weaken or destroy confidence in the management much more quickly than a policy of straightforward dealing, even in adverse circumstances.

Whether or not a company is justified in creating secret reserves is a subject upon which much discussion has taken place. There is no doubt that in the case of banks and similar institutions, where the implicit confidence of the public is vital, the creation of secret reserves is to be recommended, as they are undoubtedly a source of strength to the business, and they enable these institutions to pass through periods of crisis and severe depression without the possibility of confidence being impaired in the slightest degree. The case of those concerns to whom implicit public confidence is not vital is rather different, and there is not the same need for secret reserves. The practice of creating such reserves is favoured by some accountants and condemned by others. It would be unwise to dogmatize on the subject, as the position of each individual company must be considered, and it would have to be left to those who control the financial affairs of a business, as to whether or not secret reserves should be created.

The practice of creating secret reserves must be reviewed in cases where limited liability companies are controlled under the Companies Act, 1948.

The Companies Act, 1948, 8th Schedule, para. 27 (2), introduces a check on the creation of undisclosed reserves, although certain types of secret reserve may exist in many companies operating under the Act. Reference should also be made to the well-known case of *R.* v. *Lord Kylsant and Morland*, 1931, better known as the Royal Mail Steam Packet Company case.

QUESTIONS

1. Explain briefly the nature and use of the "revaluation process" of depreciation. What disadvantages attach to it?
2. State briefly the rates generally adopted in the case of some of the more general assets.
3. What is a Sinking Fund? Must there be an investment of cash in connexion therewith?
4. State briefly the difference between a sinking fund to replace a wasting asset, and a sinking fund to repay a liability.
5. What is a Reserve? Name some of the more usual ones.
6. Explain the purpose and *modus operandi* of a Repairs and Renewals Reserve. Discriminate between "repairs," "renewals," and "replacements."
7. What is a Reserve Fund? Must it be separately invested? How does it differ from a Reserve Account? What is a Marine Insurance Fund?
8. Differentiate between a Reserve, a Reserve Account, a Reserve Fund, and a Sinking Fund. Explain the terms "surplus," "margin," "rest."
9. What is a Provision?

EXERCISE V

1. A Lease is purchased for a term of four years by payment of a sum of £440. Show how the Lease Account would appear in the books during this period, depreciation being written off by equal annual instalments.

2. Machinery is bought for £3,000. Its life is estimated to be six years, and its break-up value at the end of this period £534. Show the Machinery and Depreciation Accounts for the six years, writing off depreciation at a fixed rate per cent on the diminishing or reducing value of the asset.

3. Machinery is purchased for a sum of £3,000. Additions are made in June of the second year to the amount of £250, and in March of the third year to the extent of £320. Show by means of Ledger Accounts the various methods of dealing with these additions when writing off the annual depreciation, the rate of which is 10 per cent on the balance of the Plant and Machinery Account.

4. A Lease is purchased for a term of seven years by payment of £2,000. It is proposed to depreciate the Lease by the annuity method, charging 5 per cent interest. Show the Ledger Account of the asset during this period.

5. £2,000 is paid for a Lease for a term of seven years. It is desired to write this amount off by means of the depreciation fund method, it being necessary to raise a similar amount, at 5 per cent compound interest, in order to replace the Lease at the end of the period. Show the Ledger Accounts dealing with this matter.

6. A firm buys Plant and Machinery for £5,000. Its life is estimated at ten years. The firm decides to take out an insurance policy in order to provide for renewal. What entries will be necessary in the books?

7. A firm possesses Investments valued at the commencement of the year at £10,586. At the end of the year the Investments are re-valued at market price, and they are then found to be worth £8,972. How (if at all) would you deal with the matter in the firm's books and Balance Sheet? Supposing they had been valued at £11,000, how would you deal with the matter?

8. An engineering firm has Loose Tools valued at the commencement of the year at £1,026 15s. 11d. At the end of the year, stock is taken and the Loose Tools are found to amount to £1,207 11s. 4d. How would you deal with this matter in the firm's books? Supposing they had been valued at £987 10s. 5d., how would you deal with the matter?

9. A Repairs and Renewals Provision is created by charging Revenue each year with a fixed sum of £200. The repairs and renewals for the ensuing four years are: (1) £159 17s. 9d.; (2) £125 14s. 6d.; (3) £269 15s. 3d.; (4) £225 16s. 11d. Show the Journal, Ledger, and Balance Sheet entries relating to the above.

10. When calculating the annual Sinking Fund to replace the cost of a Lease or other terminable benefit, why should Compound Interest be taken into account, thereby making the amounts carried to the Fund in the earlier years comparatively small, and in the later years comparatively large, instead of setting aside equal annual sums? *(Chartered Accountants.)*

11. On the 1st January the M N Co., Ltd., purchased the Lease of certain premises for £1,000. The Directors decided to form a Sinking Fund to accumulate this amount at the end of the Lease, which had five years to run, the rate of interest being taken at 3%. The requisite sum is to be transferred annually from Profit and Loss Account, and a corresponding amount invested in securities producing the required rate of interest. According to the Tables, £0·1884 per annum amounts to £1 in five years at 3%. Write up the Sinking Fund Account, the Sinking Fund Investment Account, and the Interest Account for the first three years. You may show your calculations in decimals.

(Chartered Accountants.)

12. What is a "Secret Reserve"? Give two examples showing how a bank, or other "financial house," could create a "Secret Reserve."

(R.S.A.)

13. The Directors of the Old Time Spinning Company decide to replace entirely their Plant, which is now out of date. Having advertised for tenders for the new machinery they require, they accept that sent in by Messrs. A B & Co., amounting to £8,850.

The old Machinery and Plant Account stood in the books of the Company at £5,400. There was also a Depreciation Fund in the books, the accumulated credit balance of which amounted to £1,050. Some of the materials composing the old machinery were found to be in good condition, and Messrs. A B & Co. agreed to take over shafting, etc., valued at £550, for use again; whilst the remainder was put up to auction and realized £1,200 (net).

Make the entries necessary to record these transactions in the books of the Old Time Spinning Company, and state how you would deal with the balance of the old "Machinery and Plant Account." *(London Chamber of Commerce.)*

14. A company having a Lease standing in their books at £5,000, decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the Lease expires and the policy matures?

(R.S.A.)

15. On 1st January, 1944, a Manufacturer buys Plant £2,000; on 1st July, 1945, he buys new Plant £400, and on 31st Dec. he sells for £160 Plant costing 1st Jan., 1944, £300. On 1st April, 1946, he buys new Plant £280, and on 1st Oct., 1947, sells for £70 Plant costing 1st July, 1945, £120. His plant is depreciated in the books annually at 31st Dec. at the rate of 5 per cent per annum on the original cost. At 31st Dec., 1948, he wishes to alter this method, for the whole period, to 7½ per cent per annum on the diminishing value. Prepare Machinery and Depreciation Accounts showing the result of both methods.

16. State the different ways in which annual provision can be made to meet the depreciation of leasehold property. Which do you prefer? Give your reasons.

(Chartered Accountants.)

17. A Trading Company takes out a Capital Redemption Policy with an Insurance Company to provide for a wasting Asset, paying £80 per annum premium. The premium is to be provided out of revenue. Give examples showing the entries to be made in the books of the Trading Company (1) annually, and (2) upon payment of the Capital sum by the Insurance Company.

(*Chartered Accountants.*)

18. On 31st December the City Trading Co., Ltd., had a Debenture Reserve Fund of £50,000, represented by investments amounting to £59,000 2½ per cent Consols. The Company also had a balance in the Bank on Current account at 30th June following of £6,000. The Debentures, amounting to £50,000, were paid off on 30th June. To provide for this the Consols were realized at 83 net, and the proceeds paid into the Bank on 30th June. Record the above transactions in the books of the Company, and show the Ledger Accounts affected.

(*Chartered Accountants.*)

19. A Company insured for its own benefit the life of the managing director for £10,000, at an annual premium of £250. How would you expect the outlay to be dealt with in the accounts submitted to you for audit?

(*Chartered Accountants.*)

20. The Turbine Steamer Co., Ltd., owns a Fleet of fourteen steamers trading to the Eastern Seas. These boats are at present insured in the ordinary way at Lloyd's, but the Company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal Marine Insurance Fund, and state what entries would appear in the books and annual accounts of the Company when the fund was in operation.

(*R.S.A.*)

21. You, as Secretary of the National Industries Co., Ltd., receive from Mr. T. Head, a shareholder in the company, the following letter—"I have received from the National Industries Co., Ltd., a copy of its Balance Sheet of 31st December last. There is one point on which I am not quite clear, and that is the meaning of 'Reserve Fund, £50,000' on the Liabilities side of the Balance Sheet. It seems to me to be on the wrong side, for I cannot see how a Fund can be a liability. I shall be much obliged if you will explain the matter and tell me where the 'Fund' is, and why it is not invested in outside securities."

Write an answer to this letter. The Reserve Fund in question has been accumulated out of trading profits. What would you substitute for the words "Reserve Fund" so as to avoid the above misunderstanding?

(*Chartered Accountants.*)

22. Sometimes, provision is made for depreciation of plant by writing off a fixed proportion of the original cost in each year, and sometimes by writing off in each year a fixed percentage of the balance of the account as it stood at the commencement of that year. Supposing that it is desired to write machinery which cost £1,000 down to (say) £600 at the end of the fifth year, state the amount that would be charged against each year's profits under each of these two systems. (*Chartered Institute of Secretaries.*)

23. State briefly the facts that would guide you in arriving at the proper amount of depreciation to provide for upon the Machinery and Plant used in a manufacturing business; and set out the entries you would pass through the books to give effect to the decision arrived at. (*London Chamber of Commerce.*)

24. James Jowit & Co., printers, purchased three monotype machines on 1st January, at a cost of £1,000 each. The firm's engineer reports that, with care and proper repairs, the machines will remain efficient for ten years. At the end of that period, the machines will be sold. The current market price of machines of this type after ten years' use is about £100 each.

You are asked, as book-keeper to the firm, to advise as to how the depreciation on the above machines should be treated in the books of the firm. Submit alternative methods for the consideration of the partners, and state which you prefer, and why. (*London Chamber of Commerce.*)

25. Give definitions of, and differentiate, the following well-known terms: (*a*) Reserve; (*b*) Reserve Fund; and (*c*) Sinking Fund. In the case of a Limited Company, what would guide you in deciding as to whether an amount was a Reserve, or Reserve Fund?

26. In what way, in a well-conducted Company business, are Leasehold Properties, Patent Rights, and Fixed Plant and Machinery, dealt with in the Company's books? Under what circumstances, and to what extent, ought a Company, registered under the Companies Acts, to provide a Reserve Fund? (*London Chamber of Commerce.*)

27. How would you treat, in a Manufacturer's Books, works held under a Lease of which twenty years remained unexpired, the consideration for which stood in the Ledger at £3,500; and how would you treat Patent Rights expiring in ten years, the consideration for which stood in the same Trader's Ledger at £850? (*London Chamber of Commerce.*)

28. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery; or (*b*) effluxion of time, as in the case of a building erected upon leasehold land?

What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect. (*London Chamber of Commerce.*)

29. The following balances composed the Balance Sheet of John Brown, Limited: Cash £6,000, Bills Receivable £1,200, Sundry Debtors £2,500, Stock £5,000, Capital, £10,000, Bills Payable £800, Sundry Creditors £1,400, Divisible Profit £2,500.

It was resolved to start a Reserve Fund with such an amount of the Balance of Profit as would, when invested, purchase £1,500 Consols at 85 (charges neglected).

You are requested to give the necessary Journal entries to effect this; then set out Ledger Accounts for Investments, Reserve Fund, and Profit and Loss; also draw up a new Balance Sheet showing these changes.

30. Describe a Municipal Corporation's Sinking Fund—

(*a*) As to method of contributions to same.
(*b*) As to interest received on instalments invested.

(*U.L.C.I.*)

CHAPTER VI

BILLS OF EXCHANGE, PROMISSORY NOTES, CHEQUES

Definition. By the Bills of Exchange Act, 1882, a bill of exchange is defined as—

> An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer.

An instrument which does not comply with these conditions, or which orders any act to be done in addition to the payment of money, is *not* a bill of exchange.

An order to pay out of a particular fund is not unconditional within the meaning of this section; but an unqualified order to pay, coupled with (*a*) an indication of a particular fund out of which the drawee is to reimburse himself or a particular account to be debited with the amount, or (*b*) a statement of the transaction which gives rise to the bill, is unconditional.

Advantages of a Bill. The chief advantages of a bill are—

1. It is legal evidence of debt, the creditor being able to sue on the bill itself. It also fixes the date of payment.

2. It is a negotiable instrument, and can, therefore, be transferred by the holder in settlement of his own debts, thus obviating the trouble and expense of transmitting coin, or drawing upon his bank balance.

3. It can be cashed before the due date, in fact whenever desired, by being discounted with a banker or bill-broker. This constitutes a very great advantage to business concerns, which are frequently run on credit, and may need ready money.

4. It gives the debtor time to sell the goods and obtain payment by the time he has to pay.

Kinds of Bills. There are two kinds of bills, Inland and Foreign. An **Inland Bill** is a bill which is or on the face of it purports to be (*a*) both drawn and payable within the British Islands, or (*b*) drawn within the British Islands upon some person resident therein. For the purposes of the Act, the term British Islands includes the Isle of Man and the Channel Islands. Any other bill is a Foreign Bill.

Trade Bill is a bill of exchange drawn in the ordinary course of business and for value received, in contradistinction to an **Accommodation Bill,** i.e. one for which no value has been given.

Form of Bill. No particular form of words is required by the

Act, and the following may be taken as a fair specimen of the usual business document—

£250 due 20 April, 19..	Accepted payable at the County Bank, Limited, Kingsway Branch. M. Goodman.	LONDON, 17 Jan., 19..
3/- *Stamp* Three months Mr. M. Bressloff two hundred and received.		after date pay to or order the sum of fifty pounds, value
To Mr. M. Goodman.		J. ROWELL.

They can be purchased in blank form but already stamped from any legal stationers or post office.

Parties to a Bill. There are three parties to a bill—

(*a*) **Drawer,** the person who is assumed to have written out the bill, i.e. the creditor to whom the money is owing. Compare this with a cheque which is always drawn by the debtor.

(*b*) **Drawee,** the person on whom a bill is drawn, and who, after acceptance, is called the **acceptor.** The Bank is the drawee on a cheque.

(*c*) **Payee,** the person to whom the money is payable. Sometimes the drawer and payee are one and the same person, as when the drawer asks for the money to be paid to himself. In the example given, J. Rowell is the drawer, M. Goodman the drawee, M. Bressloff the payee.

Immediate Parties are those in direct relationship with each other, e.g. drawer and drawee (or acceptor), drawer and payee, endorser and his next endorsee.

Remote Parties are all those not in direct connexion with each other, e.g. last endorser and first endorser, an intermediate endorsee and the acceptor, an intermediate endorser and the drawer or payee.

Draft and Acceptance. Before acceptance the bill is called a draft, which may, therefore, be defined as the unaccepted form of a bill of exchange. But after the drawee has written his signature across the face of it, it is termed an acceptance. It is called a bill at either stage.

Stamp Duty. The *ad valorem* stamp duty on inland bills of exchange is as follows—

Where the amount does not exceed				£10	2d.
Exceeding	£10	but not exceeding		£25	3d.
”	£25	”	”	£50	6d.
”	£50	”	”	£75	9d.
”	£75	”	”	£100	1s.

When the amount exceeds £100, 1s. for the first £100, and an additional 1s. for every £100 or fraction of a £100. When bills are drawn payable on demand (which include those payable on presentation or at sight) or within three days after date or sight, no matter what the amount, the stamp duty is only 2d.: and a 2d. adhesive stamp may be used, provided the stamp is affixed at the time of issuing the bill and is properly cancelled by the drawer. In all other cases bills must be written on paper bearing an impressed stamp of the proper value. Any person dealing with a bill of exchange improperly stamped renders himself liable to a penalty of £10 under the Stamp Act, 1891.

If a bill is payable *with interest*, the stamp duty covers the interest unless the amount of it is mentioned in the bill, or the rate per cent is stated so that it can be calculated.

Legal Liability of Parties to a Bill. The liability of the parties to a bill arises in the following order—

1. The acceptor.
2. The drawer.
3. The endorser (or endorsers).

The "acceptor" is primarily liable on a bill to the drawer so long as the drawer retains it. On endorsement to a payee, the "drawer" then becomes liable on the bill as well as the acceptor. The subsequent endorsement over by a holder in due course, who becomes an "endorser," thereby creates his liability on the bill. The "drawer" and "endorser" are liable to compensate the holder or any subsequent endorser provided the requisite proceedings on dishonour have been duly taken.

Long Bills. These are bills that have a long currency or tenor, i.e. time to run before maturity, such as those drawn at two months after date and upwards.

Short Bills. These are bills whose currency or tenor is for only a very short period, such as those payable on demand or within ten days.

Option of Treating Bill of Exchange as a Promissory Note. Where in a bill drawer and drawee are the same person, or where the drawee is a fictitious person or a person not having capacity to contract, the holder may treat the instrument, at his option, either as a bill of exchange or as a promissory note.

Sum Payable. The sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

(*a*) With interest.

(*b*) By stated instalments.

(*c*) By stated instalments, with a provision that upon default in payment of any instalment the whole shall become due.

Where the sum payable is expressed in words and also in figures,

and there is a discrepancy between the two, the sum denoted by the words is the amount payable as with a cheque.

Where a bill is expressed to be payable with interest, unless the bill provides otherwise, such interest runs from the date of the bill, or, if the bill is undated, from the issue of it.

Bill Payable on Demand. A bill is payable on demand—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation; or

(*b*) In which no time for payment is expressed.

Where a bill is accepted or endorsed when it is overdue, it is deemed a bill payable on demand as regards any such acceptor or endorser.

Bill Payable at a Future Time. A bill is payable at a determinable future time within the meaning of the Act which is expressed to be payable—

1. At a fixed period after date or sight.
2. On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a "contingency" is not valid as a bill.

Date of Bill. A bill is not invalid by reason of its not being dated, being ante-dated, post-dated, or dated on a Sunday.

Where a bill expressed to be payable at a fixed period after date is issued undated; or where the acceptance of a bill payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the bill is then payable accordingly. And should the holder in good faith and by mistake insert a wrong date, the bill is not avoided thereby, but is still payable as if the date so inserted had been the true date. The holder who fills in a date after acceptance should notify the acceptor, so that the latter may know the exact date of maturity.

d/d. Means days after date.

d/s. Means days after sight.

m/d. Means months after date.

Calculation of Time of Payment and Days of Grace. All bills except those payable on demand (which include those at sight or on presentation and those in which no time of payment is expressed) are subject to days of grace; that is, three extra days must be allowed for payment beyond the date mentioned in the bill. These three days used to be customary, but the law has now made them compulsory; and the bill is due and payable on the last day of grace. No right of action accrues until *after* the last day of grace.

When the last day of grace falls on a Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public

fast or thanksgiving day, the bill is due and payable on the *preceding* business day. When the last day of grace is a bank holiday under the Bank Holidays Act, 1871, and other Acts, or when the last day of grace is a Sunday and the second day of grace is a bank holiday, the bill is due and payable on the *succeeding* business day. If days of grace are not to be allowed, this fact must be specially noted on the bill by inserting the phrase "without days of grace," or by adding the word "fixed" after the time stated, as "on the 4th June fixed."

Where a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment. In the case of leap year, one more day must be allowed to the month of February.

Where a bill is payable at a fixed period after sight, the time begins to run from the date of the acceptance if the bill is accepted, and from the date of noting or protest if the bill be noted or protested for non-acceptance or for non-delivery.

The term "month" in a bill means calendar month. Thus, bills drawn on 28th Dec., 29th Dec., 30th Dec., 31st Dec. at two months would all mature on the same date, nominally on 28th Feb., but legally on 3rd March (allowing for days of grace).

QUESTIONS

1. What is the legal definition of a bill of exchange?
2. How many kinds of bills are there? Distinguish them.
3. How many parties are there to a bill? Explain them, and distinguish between immediate and remote parties.
4. A B of London, draws, on 1st April, a bill on C D of Liverpool for £336 16s. 11d., payable 3 m/d. C D accepts, and makes the bill payable at the Royal Bank, Liverpool Write out the bill, mark the stamp duty, and show C D's acceptance.
5. State briefly some of the advantages of bills of exchange.
6. Distinguish between (*a*) trade bill and accommodation bill; (*b*) draft and acceptance; (*c*) drawee and acceptor; (*d*) long bills and short bills.
7. What are days of grace? Are all bills subject to days of grace? How can days of grace be avoided?
8. Write down the stamp duty and due dates of the following bills—
   (*a*) £4 drawn 31st Jan. @ 1 m/d.
   (*b*) £100 drawn 15th Jan. on demand.
   (*c*) £200 drawn 16th Jan. @ 3 d/s.
   (*d*) £8 16s. 8d. drawn 28th Feb. @ 1 m/d.
   (*e*) £39 19s. 11d. drawn 31st March @ 3 m/d.
   (*f*) £62 19s. 6d. drawn 31st Dec. @ 2 m/d.
   (*g*) £84 2s. 9d. drawn 31st Aug. @ 1 m/d.
   (*h*) £299 drawn 29th Feb. @ 1 m/d, with interest at 5 per cent.
   (*i*) £299 drawn 29th Feb. @ 1 m/d, with £5 interest.
9. A trader has bills falling due on the following days (including days of grace)—

   (*a*) New Year's Day; (*b*) Good Friday; (*c*) Easter Sunday; (*d*) Easter Monday; (*e*) Whit-Monday; (*f*) August Bank Holiday; (*g*) Sunday after a special Saturday Bank Holiday; (*h*) Christmas Day; (*i*) Boxing Day.

When are the bills actually payable in each case?

10. When is a bill payable—
    (*a*) On demand;
    (*b*) At a fixed or determinable future time?

Case of Need. The drawer of a bill, and any indorser, may insert in the bill the name of a person to whom the holder may resort in case of need, that is, in case the bill is dishonoured by non-acceptance or non-payment. Such person is called the **referee in case of need.** It is in the option of the holder to resort to the referee in case of need or not as he may think fit.

Acceptance. The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer. This acceptance is effected by the drawee writing his signature across the face of the bill, though it is apparently quite legal if written on the back of it. The word "accepted" is generally prefixed, but it is not legally necessary.

Domicile. When the drawee on accepting a bill marks on it the *place* of payment, this is called the domicile of the bill. If no place is mentioned, the bill is payable at the acceptor's usual place of business.

Kinds of Acceptance. An acceptance may be either (*a*) general or (*b*) qualified.

A general acceptance assents without qualification to the order of the drawer. A **qualified acceptance** in express terms varies the effect of the bill as drawn. In particular, an acceptance is qualified which is—

(*a*) **conditional,** that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition stated therein;

(*b*) **partial,** that is, an acceptance to pay part only of the amount for which the bill is drawn;

(*c*) **local,** that is, an acceptance to pay only at a particular specified place. An acceptance to pay at a particular place is a general acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere;

(*d*) **qualified as to time,** as when a bill for two months is accepted for four;

(*e*) **the acceptance of one or more of the drawees,** but not of all.

The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance he may treat the bill as dishonoured by non-acceptance.

Note. An acceptance on behalf of a firm or a limited company or in any fiduciary capacity should contain the name of the firm or company and be accepted for them, otherwise it may legally be held to be merely the personal acceptance of the party or parties

signing; and this would render the latter personally liable on the bill. Thus acceptance should be—

For and on behalf of A B Co., Ltd.

....

Director.

And not—

....

Director of A B Co. Ltd.

Presentment for Acceptance. The presentment must be made by or on behalf of the holder, to the drawee or to some person authorized to accept on his behalf, at a reasonable hour on a business day and before the bill is overdue.

Where a bill is addressed to two or more drawees, who are not partners, presentment must be made to them all, unless one has authority to accept for all, when presentment may be made to him only. Where the drawee is dead, presentment may be made to his personal representative. Where the drawee is bankrupt, presentment may be made to him or to his trustee. Where authorized by agreement or usage, a presentment through the Post Office is sufficient.

Presentment for acceptance is excused, and the bill may be treated as dishonoured by non-acceptance—

(*a*) Where the drawee is dead or bankrupt, or is a fictitious person, or a person not having capacity to contract by bill;

(*b*) Where after the exercise of reasonable diligence presentment cannot be effected.

The fact that the holder has reason to believe that the bill, on presentment, will be dishonoured does not excuse presentment.

Dishonour by Non-acceptance. When a bill is duly presented for acceptance and is not accepted within the customary time (usually twenty-four hours), it must be treated as dishonoured by non-acceptance, or else the holder will lose his right of recourse against the drawer and endorsers.

A bill is dishonoured by non-acceptance—

(*a*) When it is duly presented for acceptance, and such acceptance is refused or cannot be obtained; or

(*b*) When presentment for acceptance is excused and the bill is not accepted.

When a bill is dishonoured by non-acceptance, an immediate right of recourse against the drawer and endorsers accrues to the holder, and no presentment for payment is necessary.

Recourse. This term denotes the right of a bona fide holder of a bill of exchange to require payment of it from some person other

than the acceptor, that is, from any of the endorsers, or from the drawer.

Delivery of Bill. A bill of exchange, although complete in form, is, like a deed, of no effect against the parties to it until it has been properly delivered. If, therefore, a bill of exchange gets into circulation through being stolen from the drawer, acceptor, or endorsers, they will not be liable upon it except to a holder in due course.

Negotiable Instruments. Partly by custom (modern as well as ancient) and partly by statute law certain documents, including bills of exchange, have acquired negotiability. The characteristics of negotiable instruments are—

1. The property in them, and not merely the possession, passes by delivery.
2. The holder in due course is not prejudiced by any defects of title on the part of the transferor or any previous holder, even though such prior party may have stolen the bill.
3. The holder can sue upon them in his own name.

Generally speaking, if the holder's title can be made good through theft then the document is a negotiable one; if not, then it is not negotiable. The following are examples of negotiable instruments: coins of the realm, bills of exchange, bank notes, cheques, promissory notes, dividend warrants, share warrants, bearer debentures and scrip, and bonds of foreign and Colonial Governments.

Negotiation of Bill. A bill being a negotiable instrument may be transferred from one person to another, who then acquires all the rights in it. A bill, negotiable in its origin, continues to be negotiable, i.e. may be re-issued, until it has been (*a*) restrictively endorsed or (*b*) discharged by payment or otherwise. Any holder may endorse over or transfer a bill unless the bill contains in the body thereof words prohibiting its transfer, or bears a restrictive endorsement. If a bill is payable to bearer, it is transferable simply by delivery; if payable to order, it is transferable by endorsement and delivery, that is, it requires the holder's signature on the back of it before being passed on. In any case, it is always advisable to obtain the endorsement of a transferor in order to make him liable as a party to the bill, which he would not be otherwise.

Endorsement. The requisities of a valid endorsement are that it must be written on the bill itself and be signed by the endorser. The simple signature of the endorser *without additional words* is sufficient. The endorsement is usually on the back of the bill, though quite legal if on the front of it. The number of endorsements may be so numerous that the space on the back of the bill is insufficient to contain all the signatures. In this case a slip of paper, called an **allonge,** may be pasted on to the bill to receive any further

endorsements. The first person to sign afterwards should write his signature partly on the bill and partly on the allonge, in order to prevent the two being separated; otherwise, the first signature on the allonge might be fraudulently attached to a bill of a larger amount. An endorsement written on an allonge, or on a "copy" of a bill, is deemed to be written on the bill itself.

Where, in a bill payable to order, the payee or endorsee is wrongly designated, or his name is misspelt, he should endorse the bill as therein described, adding, *if he thinks fit*, his proper signature.

Kinds of Endorsements. An endorsement may be in blank or special. It may also contain terms making it restrictive. An **endorsement in blank** specifies no endorsee, and a bill so endorsed becomes payable to bearer. A **special endorsement** specifies the person to whom, or to whose order, the bill is to be payable, as "pay C D or order." A **restrictive endorsement** prohibits the further negotiation of the bill, as "pay C D only," or "pay C D for the account of E," or "pay C D or order for collection." Where any person is under obligation to endorse a bill in a representative capacity, he may endorse the bill in such terms as to negative personal liability. The endorsement **"sans recours"** (without recourse) is thus often used by persons who have been acting as agents and not principals. A **facultative endorsement** is one in which an endorser has, as regards himself, waived some or all of the holder's duties, such as presentment for payment, notice of dishonour, etc. Example—

Pay C D or order,
Notice of Dishonour waived.
A B.

An endorsement must not be partial or conditional; it must be for the whole bill; and if the endorsement *is* conditional the condition may be ignored by the payer.

Circuity of Action or Negotiation Back. Where a bill is negotiated back to the drawer, or to a prior endorser, or to the acceptor, such party may re-issue and further negotiate the bill, but cannot enforce payment of the bill against any intervening party to whom he was previously liable. Thus, if Brown draws a bill and endorses it to Jones, Jones endorses to Roberts, Roberts to Green, and finally Green endorses back to Brown before it is due, Brown can re-issue and negotiate the bill but cannot enforce payment against Jones, Roberts, or Green. In like manner, if any other person becomes, for the *second* time, an endorser of the same bill, all intervening endorsers between his first and second endorsements are discharged from liability.

Where a person signs a bill otherwise than as drawer or acceptor, he thereby incurs the liabilities of an endorser to a holder in due course. This is known as "backing" a bill.

Consideration. The words "for value received" are usually written in a bill, but are not legally necessary, as a bill is not invalid by reason that it does not specify the value given, or that any value has been given therefor. Moreover, every party whose signature appears on a bill is prima facie deemed to have become a party thereto for value. This assumption, however, may be rebutted by evidence to the contrary. Valuable consideration for a bill may be constituted by—

(*a*) Any consideration sufficient to support a simple contract;
(*b*) An antecedent debt or liability, whether the bill is payable on demand or at a future time.

If a bill which has been previously accepted for value received is ultimately handed to a person as a gift, the holder cannot recover the amount from his immediate transferor as no consideration has passed; he can, however, recover it from any of the other parties to the bill. If a bill be given for a wagering or gaming debt, the holder cannot sue the loser upon it as the consideration is illegal. But if the bill is transferred for value to a third person who is unaware of the gaming transaction, such third person can enforce payment.

Presentment for Payment. Except in a few special instances, a bill must be duly presented for payment, otherwise the drawer and endorsers will be discharged from their liability. A bill payable on demand must be presented within a "reasonable" time. A bill not payable on demand must be presented on the due date at the place of payment or address of drawee or acceptor mentioned in the bill; or if this is not specified, at the drawee's or acceptor's place of business if known; and if not, at his ordinary residence if known; and if not, at his last known place of business or residence, or wherever he can be found. Where authorized by agreement or usage, a presentment through the Post Office is sufficient. Presentation for payment is not necessary in order to make an *acceptor* liable.

Delay in presentment for payment is excused when the delay is caused by circumstances beyond the control of the holder of the bill. Presentment is excused where the drawee is a fictitious person, by express or implied waiver, and where, after the exercise of reasonable diligence, presentment cannot be effected. The fact that the holder has reason to believe that the bill will, on presentment, be dishonoured, does not dispense with the necessity for presentment.

Dishonour by Non-Payment. A bill is dishonoured by non-payment (*a*) when it is duly presented for payment and payment is refused or cannot be obtained, or (*b*) when presentment is excused by the Act and the bill is overdue and unpaid. When a bill is

dishonoured by non-payment, an immediate right of recourse against the drawer and endorsers accrues to the holder. When a bill is dishonoured by non-acceptance or non-payment, notice of dishonour must be given to the drawer and each endorser, or they will be discharged from their obligations. The notice may be given in writing or by personal communication. The return of a dishonoured bill to the drawer or an endorser is, in point of form, deemed a sufficient notice of dishonour. Notice must be given immediately after dishonour or within a reasonable time. Each party who receives notice of dishonour is allowed reasonable time to give notice to antecedent parties to the bill. Where a notice of dishonour is duly addressed and posted, the sender is deemed to have given due notice of dishonour, notwithstanding any miscarriage by the Post Office.

Noting and Protest of Bill. Where an inland bill has been dishonoured, it may, if the holder thinks fit, be noted for non-acceptance or non-payment as the case may be; but noting is not legally necessary to preserve the holder's rights against the drawer and endorsers. It is often done, however, in order to prevent any subsequent dispute as to the dishonour. A bill which has been protested for non-acceptance may be subsequently protested for non-payment. Provided a bill is duly noted on the day of its dishonour, or on the next succeeding business day, the protest may be extended subsequently as of the same date as the noting. A bill must be protested at the place where it is dishonoured, unless it has been presented through the Post Office, when it may be protested at the place to which it is returned by post. Where the acceptor of a bill becomes bankrupt or insolvent or suspends payment before it matures, the holder may cause the bill to be protested for better security against the drawer and endorsers.

Notary Public. This is a public officer whose duty is to certify deeds and other documents. The word "notary" is derived from the Latin *notarius* = a writer. The duties of a notary also include the presentation of dishonoured bills of exchange, and noting their non-acceptance or non-payment and afterwards protesting them if necessary.

Noting Charges. These are the notary's fees for re-presenting the bill, recording and certifying its dishonour, and, if required, drawing up the protest. When dishonoured bills are noted, the noting charges must be paid by the holder of the bill, who is entitled to recover them from the acceptor or from the person from whom he received the bill. The notary makes a copy of the bill in his register, and then writes on the bill itself the date, his charges, the letter or folio of his register, and lastly his initials. He, or his clerk, then re-presents the bill for acceptance, or payment, as the case may be. If it is dishonoured again, he gums on to the bill

a small ticket or label containing his charges and the reason given for dishonour. The following is an example—

NOTING TICKET

PETER BROWN & Co., NOTARIES, 6 ABBEY LANE, E.C.3 NOTING CHARGES, 7*s*. 6*d*. Refer to Acceptor

Other reasons given might be "No Orders," "No Advice," "No Effects," "No Instructions," or "No Funds."

When Noting or Protest is Necessary. Noting or protest is absolutely necessary in the following cases—

1. Before a bill can be presented for payment to a referee in case of need.
2. Prior to an acceptance or payment for honour.
3. On dishonour of a bill by an acceptor for honour.
4. In the case of non-acceptance or non-payment of foreign bills.

Protest. This is the formal declaration in writing made by the notary public against the non-acceptor or non-payer of a bill of exchange. A Protest must contain a copy of the bill, and must be signed by the notary making it, and must specify—

(*a*) The person at whose request the bill is protested;

(*b*) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

It is not necessary to protest a bill in order to make the *acceptor* liable.

Where a dishonoured bill or note is authorized or required to be protested, and the services of a notary cannot be obtained at the place where the bill is dishonoured, any householder or substantial resident may, in the presence of two witnesses, give a certificate signed by them, attesting the dishonour of the bill, and the certificate operates as if it were a formal protest of the bill.

QUESTIONS

1. Is it necessary (*a*) for the drawer of a bill to insert the phrase "for value received," (*b*) for the acceptor of a bill to write the word "accepted," (*c*) for an endorser to write the word "endorsed," or (*d*) for an acceptor for honour to write the phrase "accepted for honour"? Give reasons for your answer in each case.

2. What are negotiable instruments? Name some. What are their three distinguishing characteristics?

3. How are bills of exchange negotiated? How can negotiation be restricted (*a*) in drawing the bill, (*b*) in endorsing the bill?

4. What is meant by the acceptance of a bill? Explain (*a*) general acceptance, (*b*) conditional acceptance, (*c*) partial acceptance, (*d*) local acceptance. In what other ways can the acceptance be qualified? Is a holder bound to take a qualified acceptance?

5. Explain the following: Domicile, endorser, allonge, acceptor for honour, referee in case of need.

6. What is meant by endorsing a bill of exchange? When is it necessary, and when not? The following endorsements appear on some trade bills—

(*a*) Pay A B.
(*b*) Pay C D or order, A B.
(*c*) Sans Recours, G H.
(*d*) Pay E F only, C D.
(*e*) Pay C D, notice of dishonour waived, A B.

What kind of endorsements would you respectively call these?

7. What two things are necessary in order to constitute an acceptance a valid one?

8. When is presentment for acceptance necessary, and when is it excused?

9. What is meant by noting and protest of a bill of exchange? Is it always necessary?

10. Explain the terms: notary public, noting charges, noting ticket. What stamp is required on a protest? Can a householder draw up a protest?

Damages on Dishonour. Where a bill is dishonoured, the measure of damages, deemed to be liquidated damages, is as follows—

The holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an endorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior endorser—

(*a*) The amount of the bill;

(*b*) Interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case;

(*c*) The expenses of noting, or, when protest is necessary, and the protest has been extended, the expenses of protest.

Holder in Due Course. A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely—

(*a*) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact.

(*b*) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Every holder of a bill is prima facie deemed to be a holder in due course.

Duty of Holder. Where the holder of a bill presents it for payment, he must exhibit the bill to the person from whom he demands payment, and when a bill is paid in legal tender the holder must forthwith deliver it up to the party paying it.

Acceptance for Honour *supra* Protest. Where a bill of exchange has been protested for dishonour by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *supra* protest, for the honour of any party liable thereon or for the honour of the person for whose account the bill is drawn. A bill may be accepted for honour for part only of the sum for which it is drawn. An acceptance for honour *supra* protest, in order to be valid, must (*a*) be written on the bill, and indicate that it is an acceptance for honour, (*b*) be signed by the acceptor for honour. Such an acceptance is as follows—

> Accepted *supra* protest, or Accepted for the honour and account of ....(drawer or endorser) with £........*s*.........*d.* noting charges and expenses.
>
> M. Collado.

Where an acceptance for honour does not expressly state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawer. Where a bill payable after sight is accepted for honour, its maturity is calculated from the date of the noting for non-acceptance, and not from the date of the acceptance for honour.

Where a dishonoured bill has been accepted for honour *supra* protest, or contains a referee in case of need, it must be protested for non-payment, by the drawee (if he refuses payment on presentation of the bill to him) before it is presented for payment to the acceptor for honour, or referee in case of need. When a bill of exchange is dishonoured by the acceptor for honour, it must be protested for non-payment by him.

Payment for Honour *supra* Protest. Where a bill has been protested for non-payment, any person may intervene and pay it *supra* protest for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. Payment for honour *supra* protest, in order to operate as such and not as a mere voluntary payment, must be attested by a notarial act of honour which may be appended to the protest or form an extension of it.

Alteration of Bill. Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorized, or assented to the alteration, and *subsequent* endorsers. In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent. Alterations on a bill should, therefore, be initialed by all parties to the bill.

Lost Bill. Where a bill has been lost before it is overdue the person who was the holder of it may apply to the drawer for another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost is found again. If the drawer, on request, refuses to give such duplicate bill, he may be compelled to do so.

Forgery. No title to a bill can be made through forgery. A transferee acquires no rights through a bill which bears a forged signature of either drawer, acceptor, or endorser, even though he had no knowledge of the forgery. He can, however, demand repayment of the amount he has paid for the bill from his transferor.

Discharge of Bill. A bill is discharged, i.e. all rights of action on it extinguished, by payment in due course by or on behalf of the drawee or acceptor. "Payment in due course" means payment made in legal tender *at* or *after* the maturity of the bill to the holder thereof in good faith and without notice that his title to the bill is defective. If a cheque is tendered in payment of a bill, the bill will be retained until the cheque is met, as cheques are not legal tender. Payment by the acceptor *before* maturity does not discharge the bill, and the acceptor may re-issue it. Payment by the drawer or an endorser does not discharge a bill. Where a bill payable to, or to the order of, *a third party* is paid by the drawer, the drawer may enforce payment thereof against the acceptor, but may not re-issue the bill. Where a bill is paid by an endorser, or where a bill payable to *drawer's order* is paid by the drawer, the party paying it is remitted to his former rights as regards the acceptor or antecedent parties, and he may, if he thinks fit, strike out his own and subsequent endorsements, and re-issue the bill.

When the acceptor of a bill is or becomes the holder of it at or after its maturity, in his own right, the bill is discharged. When the holder of a bill at or after its maturity, by express waiver in writing, or by delivering up the bill to the acceptor, absolutely and unconditionally renounces his rights against the acceptor the bill is discharged. Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

Moratorium. This term, which is a Latin word derived from *morari* = to delay, denotes a legal authorization to delay for a stated time the payment of certain specified debts or obligations.

The promulgation of a moratorium is to allow debtors on bills of exchange, particularly firms who are unable to obtain payment from foreign debtors, time to collect the necessary funds to meet their own obligations, and thus save themselves from bankruptcy.

ACCOMMODATION BILLS

Definition. An Accommodation Bill is a bill put into circulation in order to raise money on it by the process of discounting. It differs from an ordinary trade bill in that no value has been received for it. Accommodation Bills are also known as "fictitious bills," "kites," and "windmills."

Method of Procedure. Bills may be drawn for the accommodation of either drawer or acceptor, or for the mutual accommodation of both. The discount charges are borne by the party or parties receiving the proceeds of the bill. The party accommodated engages—

(*a*) to provide funds for the payment of the bill at maturity;
(*b*) to indemnify the accommodating party should the latter be compelled to pay the bill.

Discharge of Bill. Where an accommodation bill is paid in due course by the party accommodated the bill is discharged. Unlike a trade bill, the principal debtor is not necessarily the acceptor, but the party accommodated.

Before proceeding to the subject of Foreign Bills it is proposed to deal with those inland bill transactions that seem to be a fruitful source of difficulty to the generality of students.

BILLS OF EXCHANGE TRANSACTIONS

Transactions in bills of exchange beyond the elementary stage seem a source of anxiety and difficulty to the student when attempting to provide the necessary book-keeping records therefor, mainly because of an attempt to follow their many bearings "as a whole." The viewpoints of the parties to the transactions seem to converge, and the student may be unable to decide which set of entries belong to which party.

Practical problems of this kind are best dealt with a step at a time. The student must determine whose books shall be *first* dealt with, following upon which the relevant transactions will be extracted, and then it will be seen that a clear grasp of certain facts has resulted. Perhaps two examples of transactions in accommodation bills will more clearly explain the "piecemeal" method of handling such transactions.

Example 1. On 1st January A draws on B for his personal accommodation a bill at three months for £200 which he immediately discounts with his banker. The banker charges 5 per cent. On maturity, A honours his obligation to B by a cheque, with which B meets the bill. Show the entries in the books of both parties.

Method of Procedure and Solution. It must first be determined "whose books shall be prepared *first*—A's or B's." The wavering between A's viewpoint and B's viewpoint will lead to

disaster and must be avoided. Take A's standpoint, and the transactions he is concerned with will readily emerge; they are as follows.

1. A draws on B.
2. A discounts B's acceptance, being charged discount at 5 per cent.
3. A remits cheque to B.

The accounts will be as under—

A's LEDGER

Dr. BILLS RECEIVABLE *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To B	200 – –	19.. Jan. 1	By Bank . .	200 – –

Dr. B *Cr.*

		£ s. d.			£ s. d.
19.. Apr. 4	To Bank	200 – –	19.. Jan. 1	By Bills Receivable .	200 – –

Dr. BANKERS' DISCOUNT *Cr.*

		£ s. d.			
19.. Jan. 1	To Bank	2 10 –			

Dr. BANK *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Bills Receivable .	200 – –	19.. Jan. 1 Apr. 4	By Discount Charges . ,, B	2 10 – 200 – –

The entries in the Bank Account agree with the method of entry as shown in the Bank Pass Book. An alternative method is to utilize the discount column on the debit side, and extend the net amount of the bill in the bank column, so—

Dr. CASH BOOK

Date	Particulars	Fo.	Discount	Bank
			£ s. d.	£ s. d.
19.. Jan. 1	To Bills Receivable . . .		2 10 –	197 10 –

NOTE. The discount is calculated on the "period" the bill has to run, and not as a percentage on the amount as for cash discount.

Now that A's books have been prepared it is a simple matter to deal with the transactions as they affect B. B is concerned with the following transactions—

1. Accepts A's draft.
2. Receives £200 from A.
3. Honours his acceptance.

The following are the accounts he will prepare—

B's LEDGER

Dr. A Cr.

19.. Jan. 1	To Bills Payable .	£ 200	19.. Apr. 4	By Bank	£ 200

Dr. BILLS PAYABLE Cr.

19.. Apr. 4	To Bank	£ 200	19.. Jan. 1	By A	£ 200

Dr. BANK Cr.

19.. Apr. 4	To A	£ 200	19.. Apr. 4	By Bills Payable . . .	£ 200

Example 2. On 1st January A and B draw on each other at three months for £200. They discount each other's bills, the banker's discount charges being 5 per cent per annum. On the due date of the bills each meets his own acceptance. Show the accounts in the books of both parties.

Method of Procedure and Solution. Take A's viewpoint, and the transactions develop in the following order—

1. A draws on B.
2. A accepts B's draft.
3. Discounts B's acceptance.
4. Honours own acceptance.

A's ledger will show the following accounts—

A's LEDGER

Dr. B Cr.

		£	s.	d.			£	s.	d.
19.. Jan. 1	To Bills Payable. .	200	–	–	19.. Jan. 1	By Bills Receivable .	200	–	–

Dr. BILLS RECEIVABLE Cr.

		£	s.	d.			£	s.	d.
19.. Jan. 1	To B	200	–	–	19.. Jan. 1	By Bank	200	–	–

Dr. BILLS PAYABLE *Cr.*

19..		£ s. d.	19..		£ s. d.
Apr. 4	To Bank . . .	200 – –	Jan. 1	By B. . . .	200 – –

Dr. BANKERS' DISCOUNT *Cr.*

19..		£ s. d.			
Jan. 1	To Bank . . .	2 10 –			

Dr. BANK *Cr.*

19..		£ s. d.	19..		£ s. d.
Jan. 1	To Bills Receivable .	200 – –	Jan. 1	By Discount Charges	2 10 –
			Apr. 4	,, Bills Payable .	200 – –

Having established the position of A in regard to the question, we have now to indicate the transactions as they affect B; they are as follows—

1. B draws on A.
2. B accepts A's draft.
3. Discounts A's acceptance.
4. Honours own acceptance.

As will be seen, the accounts B will raise are parallel to those of A, except for the personal account, and it is, therefore, deemed unnecessary to draft B's ledger.

A point, however, that must be emphasized is that A's and B's accounts are viewed as being separately prepared, and from different angles. For instance, "A drawing on B" is, in A's books, represented by two accounts, namely, (1) "B" and (2) "Bills Receivable"; whereas in B's books the same transaction is recorded in accounts named "A" and "Bills Payable" respectively. By a strict application of the method outlined above it is thought the student will acquire a clearer grasp of matters concerning bill transactions.

Dishonour. Questions on dishonoured bills are again the occasion of difficulty to students, and it would seem due to an attempt to focus the position of all those concerned with the negotiation of the bill to date of dishonour when determining what book-keeping records are necessary. It is now proposed to deal with an example of this kind of question.

Question. J failed to honour his acceptance to A of Bill No. 14 for £200 on the due date. The Noting Charges were 5s. Show the necessary book-keeping records in connexion therewith. There are several circumstances under which dishonour may arise; state these, and express the "records" applicable to the different circumstances of dishonour.

Method of Procedure and Solution. It is necessary to be quite clear that the books wherein the records will be made are those of the "drawer." Avoid speculating as to the relation of any of the other parties to the bill the subject of dishonour, at this point. First then, all the book-keeping entries are viewed from the drawer's position. The next step is to put down in order the circumstances under which J's acceptance may be dishonoured, which are as follows—

1. The bill is still in the hands of the drawer.
2. The bill has been since discounted with the banker.
3. The bill has been handed to the banker for collection.
4. The bill has been previously endorsed over to a creditor.

Now the position is clear for proceeding to make the book-keeping records required by the terms of the question. Before preparing the books, it may be stated that the subsidiary books *only* need be prepared when answering this type of question—unless specific instructions for complete workings are given as a part of the question.

1. On dishonour when the bill is still in the hands of the drawer.

A's BOOKS

JOURNAL

		Dr.	*Cr.*
		£	£
	J	200	
	To Bills Receivable		200
	Cancellation of Bill No. 14.		

The Noting charges will be the subject of a Cash Book entry as under—

CASH BOOK (Payments Side) *Cr.*

		OFFICE		
		£	*s.*	*d.*
	By J (noting charges on dishonour)		5	–

2. On dishonour when the bill has since been discounted with banker; and

3. On dishonour when the bill has been sent to the banker for collection.

CASH BOOK (Bank Account) *Cr.*

		£	*s.*	*d.*
	By J (Dishonoured Bill and noting charges) . . .	200	5	–

Should the "drawer" and not the banker get the bill noted, then the "Office column" would show 5s. for noting charges, and the "Bank column" would show £200—the amount of the bill.

4. On dishonour when the bill has been endorsed over to a creditor.

JOURNAL	*Dr.*	*Cr.*
	£ *s.* *d.*	£ *s.* *d.*
J . . . . *Dr.*	200 5 –	
To A. Creditor		200 5 –
For amount of bill and noting charges.		

After dishonour it is frequently the case that bills are renewed, i.e. the existing bill is cancelled, as mentioned above, and a new one is made out for the whole or part of the amount owing and including interest. The book-keeping entries necessary are—

(1) For Bills Receivable	(2) For Bills Payable
JOURNAL T *Dr.* To Bills Receivable Cancellation of bill.	JOURNAL Bills Payable *Dr.* To M Cancellation of bill.
T *Dr.* To Interest Interest charged for extended period of credit.	Interest *Dr.* To M Interest charged for extended period of credit.
Bills Receivable *Dr.* To T For new bill, including interest.	M *Dr.* To Bills Payable For new bill, including interest.
Interest on bills receivable is a GAIN.	Interest on bills payable is a LOSS.

Further Case. In exercise work on bills it is not unusual to meet with this transaction: "Endorsed B's acceptance over to Q in consideration of which Q credited my account with £195; the bill was drawn for £200." This transaction includes a charge for interest on the tenor of the bill. Students should attempt to take up the practical standpoint. It is obvious that Q must charge for the period he has to wait before he can encash B's acceptance

(assuming he waits till date of maturity). Hence, the book-keeping records will be as under—

JOURNAL

	Dr.	Cr.
	£	£
Q	200	
To Bills Receivable		200
Endorsement of B's acceptance.		
Interest	5	
To Q		5
Interest charged on unexpired term of bill (loss).		

In Chapter IX are shown many bill transactions, the entries for which students are advised to trace in the *model* working which follows.

QUESTIONS

1. What is meant by presentment for payment? When is it necessary, and when not? When is delay in presentment excused?
2. When is a bill dishonoured, (*a*) by non-acceptance, (*b*) by non-payment?
3. What is meant by notice of dishonour? When is it necessary, and when is it excused?
4. Explain the terms: holder in due course, recourse, damages on dishonour, payment for honour *supra* protest.
5. Bills are drawn as under—

(*a*) Payable in three months provided the goods turn out satisfactorily.

(*b*) Payable one month after the drawer's marriage (the marriage actually takes place).

(*c*) Payable as soon as the ship reaches the port of Liverpool (the ship duly arrives in port).

(*d*) Payable 10 days after a certain person's death.

(*e*) Payable out of a particular fund.

State, with reasons in each case, whether the above bills are valid or not.

6. How do the following affect the parties to a bill of exchange?—

(*a*) Material alterations, (*b*) forgery, (*c*) non-delivery of bill, (*d*) loss of bill?

7. In what ways can a bill be discharged?
8. What are the legal liabilities respectively of (*a*) drawer, (*b*) acceptor, (*c*) endorser, (*d*) acceptor for honour?
9. Explain the method of procedure with regard to accommodation bills. What is the legal liability of an accommodation party?
10. Explain the meaning of fictitious payee. How does the absence of a date affect a bill? Does any mention of interest affect a bill?

FOREIGN BILLS

Definition. According to Section 4 of the Bills of Exchange Act a "foreign" bill is any other bill which does not come within the definition of an inland bill. It is generally defined as "a bill drawn in one country but payable in another." Foreign bills are usually drawn in sets of three, called "vias," and generally contain the phrase "value received" or "value in account." Each via is

numbered and stipulates that it is to be paid only if the other two vias are unpaid. To minimize the risk of loss, and to avert the delay arising therefrom, the three forms are dispatched at different times, i.e. by different mail steamers.

Documentary Bills. These are foreign bills having certain documents attached. (See page 186.)

Clean Bills. These are foreign bills having *no* documents attached.

Form of Bill. There is no particular form of bill required by the Act. Below is a specimen in common use.

LONDON,

Exchange for £800. 21 *Jan.*, 19..

8/-

Thirty days after sight pay this First of Exchange (Second and Third of same date and tenor unpaid) to Messrs. Carpentier et Cie, or order, eight hundred pounds, value in account.

J. ROWELL.

To Messrs. Hachette Frères,
Lyons.

Sum Payable. In addition to the cases mentioned under Inland Bills, the sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid—

According to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.

The sum for which a foreign bill is drawn is often stated in the currency of the country where it is payable. Where a bill is drawn out of, but payable in, the United Kingdom, and the sum payable is not expressed in the currency of the United Kingdom, the amount, in the absence of some express stipulation, is calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

Bill in a Set. Where a bill is drawn in a set, each part of the set being numbered, and containing a reference to the other parts, the whole of the parts constitute one bill. The acceptance may be written on any part, and it must be written on one part only. Any person who accepts, or any person who endorses, more than one part will be liable on those parts as if they were separate bills. With these exceptions, where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged.

Sola. This term, or "Sola Draft," "Sola of Exchange," appearing on a bill of exchange means that it is the sole or only bill, i.e.

that the bill has not been drawn in a set. With near countries, nowadays, one copy, or a first and second of exchange, are often deemed sufficient, as the mail service is more regular and reliable than in former times.

Foreign Bills Drawn in Sterling. The custom has long prevailed amongst English merchants of drawing on their foreign customers in the home currency instead of in the currency of the country where the bill is payable, and of stipulating that the bill shall be paid at the rate of exchange ruling on the day of the first London endorsement. An example is shown below.

£227 16s. 11d.

LIVERPOOL,
15 *Sept.*, 19..

3/-

Three months after date pay this First of Exchange (Second and Third of same date and tenor unpaid) to Signor F. Spraghetti, or order, the sum of two hundred and twenty-seven pounds sixteen shillings and elevenpence, at the rate of exchange as per first London endorsement, value received, and charge to account as per advice.

ROGERS & SON.

To Signori Bellami & Cia,
Genoa.

When the bill is sold the endorsement would be similar to the following—

> Pay T. Ruelli & Co., or Order, at the exchange of 25 lire and 66 centesimi for £1 sterling.

The buyer, i.e. the London banker or broker, will write the rate of exchange and the currency amount on the bill underneath the sterling figures; and this information will be sent by the drawer to the drawee, so that the latter may verify the exchange and know what amount he will eventually have to pay. The great advantage of this method to the drawer is that he obtains the cash for the full amount of his invoice, and thereby obviates the risk of loss in exchange. The custom seems to have originated from the violent fluctuations of exchange in time of war or panic, and the consequent desire of the drawer to protect himself against the resultant loss.

The foreign merchant thus bears the loss arising from exchange; for no matter how low exchange falls, he must provide a sufficient amount of the foreign currency to purchase a bill for the required sterling sum. At the same time, however, he stands a chance, should the rates be favourable, of making a profit on exchange.

Stamp Duty. On bills drawn in the United Kingdom and payable abroad, and on bills drawn abroad and payable in the United Kingdom, the stamp duty is the same as for inland bills. Foreign bills both *drawn* and expressed to be *payable out* of the United Kingdom, but which are actually paid, endorsed, or negotiated *in* the United Kingdom, are stamped as follows—

Up to £50, like an inland bill.
Exceeding £50, but not exceeding £100, 6d.
,, £100, 6d. for every £100 or fraction of a £100.

When foreign bills are payable on demand, or within three days after date or sight, a postage stamp may be used; in other cases, a proper adhesive foreign bill stamp must be affixed and properly cancelled by the first person dealing with the bill. These can be purchased at most of the larger Post Offices. A foreign bill (as described in this paragraph) need not be stamped before it is issued, but it must be stamped before it is negotiated in the British Isles. If the bill is drawn in foreign currency the amount, for the purpose of stamp duty, is calculated according to the rate of exchange mentioned in the bill; or if no rate is mentioned, then it is calculated according to the rate of exchange current on the date of the bill. Stamps required by the laws of foreign countries are usually affixed by the foreign customer and debited to the account of the English merchant.

The following is a specimen of such a foreign bill as just mentioned—

Marseille, Bon pour Francs 5,000.
le 20 juin, 19..

Timbre

A soixante jours de vue payez contre cette PREMIÈRE de CHANGE (Seconde et Troisième ne l'étant) à l'ordre de Monsieur Louis P. Corneille la somme de cinq mille francs, valeur reçue en marchandises, que passerez à mon compte suivant avis.

Accepté 15 juillet, 19.. payable au Crédit Lyonnais succursale à X. Léon Tulle.

A. M. Léon Tulle,
à X.

Adhesive foreign bill stamp 6d.

P. LOUBET.

No. 1726. Au besoin chez M.M.B. et Cie.

For the purposes of the Bills of Exchange Act, bills drawn in the Channel Islands and the Isle of Man are *inland* bills; yet, for the purposes of the Stamp Act, these bills are *foreign* bills and require, not the impressed inland revenue stamp, but the adhesive foreign bill stamp.

Assuming the above bill, drawn and payable abroad, to be actually paid, endorsed, or negotiated in the United Kingdom, it must be stamped with a foreign adhesive bill stamp for 6d.

Usance. It is customary for foreign bills to be made payable at one or more "usances," i.e. time of payment as fixed by custom. For instance, the usance between London and New York is sixty days after sight. Double usance means double the usual time, and so on. The period of usance originally denoted the time which a vessel took to reach its destination.

After Sight. Foreign bills are generally drawn payable at so many *days* "after sight." This ensures the drawee having the benefit of the full period of time after acceptance, an important point when the acceptor is abroad. The acceptor of such bills must, therefore, sight or date his acceptance, as the time for maturity begins to run from the date of such acceptance and not from the date on which the bill was drawn. The following is an example of a foreign bill duly sighted—

Exchange for $4,000.

LONDON,
21 Jan., 19..

9/-

At sixty days' sight pay this First of Exchange (Second and Third of same date and tenor unpaid) to the order of Mr. James Retrop the sum of four thousand dollars, value received, and place to account as advised.

Sighted 28 Jan., 19..
Accepted payable at
National Bank, New
York,
A B & Co.

To Messrs. A B & Co.
New York.

R. BRABY.

Days of Grace. Great Britain and certain of its dominions are now practically the only countries where days of grace are allowed, but foreign bills payable in this country get the benefit of the three days of grace.

How Foreign Bills are Dealt With. Unless the foreign country happens to be a very near one, foreign bills are not sent for acceptance and return as in the case of inland bills. If the drawer has both a debtor and a creditor in the foreign country he will

draw the bill on the debtor payable to the creditor. The latter will then obtain the drawee's acceptance and credit the amount of the bill to the account of the drawer. If the drawer has no creditor in the country where the bill is payable, he will draw the bill payable to his own order, endorse it, and discount it with his banker, who will no doubt have a branch, agent, or correspondent in the country where the bill is payable. Or, if he himself is of good financial standing, he may elect to dispose of it to a bill broker or foreign banker.

Noting and Protest. Where a foreign bill has been dishonoured by non-acceptance, it must be duly protested for non-acceptance; and where such a bill, which has not been previously dishonoured by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment; otherwise, the drawer and endorsers are discharged. The noting and protest is the only recognized evidence of dishonour in many foreign courts.

Damages on Dishonour. In the case of a bill which has been dishonoured abroad, in lieu of the usual damages (mentioned under Inland Bills), the holder may recover from the drawer or an endorser, and the drawer or an endorser who has been compelled to pay the bill may recover from any party liable to him, the amount of the re-exchange, with interest thereon until the time of payment.

Re-exchange. This is the loss resulting from the dishonour of a bill in a country different from that in which it was drawn or endorsed. The re-exchange is ascertained by proof of the sum for which a bill at sight must be drawn in order to realize, at the place of dishonour, the amount of the dishonoured bill and the expenses consequent upon dishonour. The latter comprise the expenses of protest, postage, commission, brokerage, and the cost of the stamp when a re-draft is necessary.

Conflict of Laws. Where a bill drawn in one country is negotiated, accepted, or payable in another—

(*a*) The validity of the bill as regards requisites in form is determined by the law of the place of issue, and as regards the supervening contracts, such as drawing, endorsement, acceptance, or acceptance *supra* protest, by the law of the place where such contract was made.

(*b*) The duties of the holder with respect to presentment for acceptance or payment, and with respect to notice of dishonour, protest, etc., are determined by the law of the place where the act is done or the bill dishonoured.

(*c*) The due date of the bill is determined according to the law of the place where it is payable.

Differences between Inland and Foreign Bills. These may be summed up as follows—

1. An inland bill must be written on duly stamped paper (except

where the duty is only 2d.). A foreign bill can be issued *before* being stamped.

2. A foreign bill is usually made payable at one or more usances. Inland bills are drawn payable at any period the drawer chooses.

3. A foreign bill, if dishonoured, must be duly noted and a protest drawn up. With inland bills noting and protest are optional (except in cases of acceptance and payment for honour).

4. Foreign bills are usually drawn in sets; inland bills are drawn singly.

DOCUMENTARY BILLS

Definition. A Documentary Bill is a foreign bill having certain "documents of title" attached. The documents are usually the invoice of the goods, the bill of lading, insurance policy, and, sometimes, a letter of hypothecation.

Nature and Use of Documents Attached. Foreign bills, especially those relating to shipping orders and consignments, are discounted or sold before they are accepted. The banker is thus taking a considerable risk, and seeks to protect himself by obtaining possession of the relative shipping documents.

Letter of Hypothecation

London,
20th June, 19..

The Safe Bank, Ltd.
Hillcorn, E.C. 2.

Dear Sirs,

We send you enclosed bill for £600 at 90 days' sight drawn by us on Messrs. Roberts & Son, Wellington, New Zealand. In consideration of your advancing to us thereon 80 per cent, namely £480, we hand you the following set of shipping documents—

Invoice for 20 Cases of Goods, value £600, in triplicate;

Bill of Lading for above 20 cases marked R. & Son 626/45, in triplicate;

Policy of Marine Insurance for £650, in duplicate.

Freight on the goods has been paid by us.

In the event of the said bill being dishonoured, we authorize you to sell such goods for our account and at our risk, and to charge us with the usual expenses and commission.

Yours faithfully,
F. Francis & Co.

The invoice is required in order to identify the goods, and must be produced to the customs officials at the port of delivery. The bill of lading, duly endorsed, gives the banker a title to the goods; and the shipping company will deliver only in exchange for the bill of lading. The insurance policy, duly endorsed, is the banker's security for indemnity in case the goods are lost owing to the perils of the sea. The letter of hypothecation pledges the goods as security for the payment of the bill, by giving the banker the right, in the event of the bill being dishonoured by non-acceptance or non-payment, to dispose of the goods and to charge any deficiency to the drawer. Documentary bills are also bought and sold by bill brokers. They form a convenient means of settling debts in the countries where the bills are payable, the documents attached affording security to the purchaser.

Letter of Hypothecation. A specimen is shown on p. 186.

Letters of Hypothecation are seldom used nowadays, the banker referring, on dishonour, to the drawer for instructions, repayment of bill, and disposal of goods. This is more particularly the case where the drawer keeps a substantial current account with the bank concerned.

Method of Procedure. The banker, having discounted the bill, or made the required advance, generally 80 to 90 per cent *less* charges, forwards the bill (the first copy being duly stamped), together with the original documents attached, to his branch or agent at the place of destination of the goods. A second set is sent by the next mail, the third set being retained by the banker. When the goods arrive they are unshipped and stored in the dock warehouses by the banker's agent, who calls upon the drawee for acceptance or payment of the bill, in return for which he surrenders the documents. Where the drawee is a trader of good financial standing, the banker's agent will release the goods as soon as the bill has been accepted; in such cases the bill generally contains the clause "*documents attached to be surrendered on acceptance.*" In other cases, the agent will be instructed to obtain not only acceptance, but payment of the bill at maturity, before releasing the goods. The abbreviations D/P and D/A are used to indicate whether the documents are to be released to the drawee against payment or acceptance respectively.

With some indents (shipping orders from abroad) the bill is drawn at such a period that maturity of the bill will coincide with the arrival of the goods. If the customer so desires, he may pay the bill by instalments, obtaining in return a corresponding portion of the goods. Where the customer wishes to secure possession of the whole of the goods before maturity of the bill, in order to take advantage of a favourable market, he may retire the bill under rebate, that is, a cash discount for the unexpired term of the bill.

The banker's charges include, not only commission and cost of stamp that may be necessary in the foreign country, but also interest from the date of the bill up to maturity. And hence, if the bill is paid before the due date, the banker will be quite willing to forego the unearned portion of the interest.

Bills drawn in sterling, and not in the currency of the country whence they are forwarded, are payable at some specified rate of exchange; and in such cases the banker's charges may be covered by the rate of exchange at which he buys the bill. Sometimes, the amount to be paid is the amount of the bill, plus interest on it up to the time when the remittance in payment reaches London, or other place of making the original advance. On receipt of advices that the bill has been duly honoured, the banker will pay the remaining 10 or 20 per cent due on the bill. Documentary bills are used principally in the import and export trade, both of which are virtually financed by means of these bills under the above-mentioned procedure. Inward and outward shipments are also made against bills drawn payable at sight, but more usually against bills drawn at ordinary usance.

Specimens of Documentary Bills. The following are fair specimens of the documentary bills in ordinary use—

No. 356. LONDON,

Exchange for £600. 20*th June*, 19..

6/-

Ninety days after sight of this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) pay to us or our Order the sum of Six hundred pounds, value received against $\boxed{\text{R. \& Son}}$ 626/45 = 20 Cases of Goods per ss. *Crown Prince*, and place to account as advised. Shipping documents attached to be surrendered on payment.

To Messrs. Roberts & Son,
Wellington,
New Zealand.

F. FRANCIS & Co.

The above bill would be endorsed—

Pay to the Safe Bank, Ltd., or Order,
F. Francis & Co.

No. 764. LONDON,
Exchange for £450. *4th Jan.*, 19..

5/-

Sixty days after sight of this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) pay to our order the sum of Four hundred and fifty pounds sterling, payable at the National Bank of India's drawing rate for demand drafts on London, with interest at six per cent per annum added thereto from date hereof to approximate due date of arrival of the remittance in London, value received against S.S. & S. 623/37 = 15 bales of Cotton Goods per ss. *Queen Maud.* Shipping documents attached to be surrendered on acceptance.

S. SELLER & SON.

To Messrs. Byjamji & Co.,
Bombay.

The above bill would be endorsed by the drawers, thus—

Pay The National Bank of India, or Order,
S. Seller & Son.

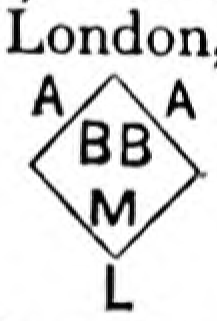
The number in the top left corner is entered by the person drawing the bill (usually the drawer) and is merely the next available number in his Bill Book. Once in circulation a bill is always referred to by number.

Whenever a bill is taken from circulation, by payment, dishonour, or renewal, its fate must be recorded in the Bills Receivable or Bills Payable Book in order that a check can be kept on the accuracy of the corresponding Impersonal Ledger account.

QUESTIONS

1. Define a foreign bill. Name some of the principal differences between inland and foreign bills. Distinguish between "clean" and "documentary" bills.

2. On 15th March, B. Brown, of Melbourne, drew on A. Archer, of London, at 60 d/s for £275, on account of 36 bales of Wool marked as shown, shipped per s.s. *Retrop*, and attached the usual documents which were to be surrendered on acceptance of bill. Write out the bill in each of its three vias.



3. Explain the following terms: Usance, sola, letter of hypothecation, re-exchange, first of exchange, documents attached, protest, via.

4. A bill is drawn in Germany, accepted in France, and paid in England. To what parts of the bill would the different laws apply?

5. Are days of grace allowed on foreign bills?

6. Why are foreign bills often drawn in the home currency? When the amount

of a foreign bill is not expressed in sterling, how is its value determined for the purpose of (*a*) stamp duty, and (*b*) payment?

7. Why are foreign bills drawn "after sight"? How does this affect the acceptance of a long bill? Give an example of a foreign bill drawn "after sight" and duly accepted.

8. "Foreign bills, unless drawn on a near country, are not sent for acceptance and return." Explain this, and the procedure with regard to such bills.

9. Are foreign bills liable to stamp duty? If so, what are the rates, and when must the stamp be affixed? What peculiarity is there with respect to bills drawn in the Channel Islands and the Isle of Man?

10. Give an example of a documentary bill. Explain the object of such bills, and the usual method of procedure with regard to them.

PROMISSORY NOTES

Definition. By the Bills of Exchange Act, 1882, a Promissory Note is defined as—

> An unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

Promissory notes are used chiefly for loan transactions. Like bills of exchange, they are negotiable instruments, and can be transferred for value. They are sometimes discounted, and are subject to days of grace, unless payable on demand. Promissory notes payable *to bearer* on demand for a sum greater than £1 and less than £5 are void in England.

Form of Note. There is no special statutory form of promissory note, but below is a typical specimen of those in current use.

Stamp Duty. The stamp duty on promissory notes is the same as for bills of exchange, except that it is always *ad valorem*, whether the note is payable on demand, or within three days, or otherwise.

£120. LONDON,

1*st July*, 19..

Stamp
2/-

Two months after date I promise to pay to Mr. T. Green, or order, the sum of One hundred and twenty pounds, for value received.

Y. YELLOW.

Parties to a Note. There are two parties to a promissory note—

(*a*) **Maker**, the party who writes out the note, i.e. the debtor. In the example given Y. Yellow is the maker.

(*b*) **Payee,** the person to whom the money is payable, i.e. the creditor. In the example given T. Green is the payee.

Kinds of Notes. Promissory notes are of two kinds, inland and foreign.

An **Inland Note** is one which is, or on the face of it purports to be, both made and payable within the British Islands. Any other note is a foreign note.

Difference between Promissory Note and Bill of Exchange. The following points of difference should be carefully noted—

1. A Note is a *promise* to pay, a Bill is an *order* to pay.
2. Bills are often drawn *in sets*, notes are made *singly*.
3. There are *three* parties to a Bill, but only *two* to a Note.
4. A Bill is drawn by the *Creditor*, a Note is made out by the *Debtor*.
5. A Bill requires *acceptance*, a Note does *not*.
6. Foreign Bills when dishonoured must be *protested*, foreign Notes need *not*.
7. A Note payable on demand requires an *ad valorem* stamp, a Bill only a 2d. stamp.

Joint Notes, Joint and Several Notes. By Section 85 of the Bills of Exchange Act—

(1) A promissory note may be made by two or more makers, and they may be liable thereon jointly, or jointly and severally according to its tenor.

(2) Where a note runs, "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

Below is a specimen of a Joint Note.

To convert this into a Joint and Several Note it would have to be amended to read, "I promise to pay," or "We and each of us promise to pay," or "We jointly and severally promise to pay." A Joint and Several Note has a great advantage over a mere Joint Note, because it enables the holder to sue the makers not only jointly but also individually.

£100. LONDON,

25*th Feb.*, 19. .

1/-

Four months after date we promise to pay to Mr. R. J. Porters the sum of One hundred pounds, value received.

W. MARSHMAN.

T. BAYES.

Note Payable on Demand. Like a bill of exchange a note is payable on demand—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation; or

(*b*) In which no time for payment is expressed.

Presentment for Payment. Where a promissory note is in the body of it made payable at a particular place, it must be presented for payment at that particular place in order to render the maker liable. In any other case, presentment for payment is not necessary in order to render the *maker* liable. Presentment for payment is necessary in order to render an *endorser* liable.

Liability of Maker. The maker of a promissory note by making it—

1. Engages that he will pay it according to its tenor.
2. Is precluded from denying to a holder in due course the existence of the payee and his then capacity to endorse.

Promissory Note and Collateral Security. By Section 83 (3) of the Act, "A note is not invalid by reason only that it contains also a pledge of collateral security with authority to sell or dispose thereof."

Bills of Exchange Act and Promissory Notes. The provisions of the Bills of Exchange Act apply also to promissory notes, with the following exceptions—

(*a*) Presentment for acceptance; (*b*) Acceptance; (*c*) Acceptance *supra* protest; (*d*) Bills in a set; (*e*) Protest on dishonour.

In applying the provisions of the Act, the maker of a note is deemed to correspond with the acceptor of a bill, and the first endorser of a note is deemed to correspond with the drawer of an accepted bill payable to drawer's order.

Foreign Promissory Notes. A Foreign Note is any note that does not come within the definition of an Inland Note. Below is a specimen.

BILLET À ORDRE

PARIS, Bon pour Francs 2,500.
le 15 *Janvier*, 19..

Timbre

A deux mois de date je payerai à Monsieur Paul Coppée, ou à son ordre, la somme de francs deux mille cinq cents, valeur reçu en espèces.

LOUISE PEINE.

BANK NOTES

Definition. These are promissory notes, payable to bearer on demand, issued by English, Scotch, and Irish banks. They may be re-issued after payment and usually are, except by the Bank of England.

Right of Issue. The Bank of England now has the monopoly of note issue for England and Wales.

Amounts for which Notes may be Issued. In England and Wales notes are now issued for sums of £5 and upwards, £1, and 10s. These £1 and 10s. notes of the Bank of England replaced the Treasury notes in 1928. Scottish and Irish notes are issued for sums of £1 and upwards.

Bank Notes Negotiable Instruments. Bank of England notes are legal tender for all amounts. As they are negotiable instruments the holder of a bank note, provided he has taken it bona fide and for value, can retain it against everybody, even the lawful owner. The bank may have "stopped payment" of certain stolen notes, but is nevertheless liable to a bona fide holder for value. For greater safety, when being sent by post, bank notes can be cut in halves, one half being forwarded by one post, and the other by a later one. The halves must be pasted together before being presented for payment; but the mutilation does not affect their negotiability.

BANK DRAFTS

Definition. Bank drafts are bills of exchange drawn by one banker on another. As any person can buy from a banker a draft payable in any part of the United Kingdom, or in any country abroad, they form a convenient means of remitting money. They possess a certain security against fraud, inasmuch as the other bank is notified of the amount of the draft. On inland drafts a small commission is charged, but with foreign drafts this will be covered by the rate of exchange at which they are purchased.

IOU

Definition. An IOU is a written memorandum or acknowledgment of indebtedness. The letters IOU are a contraction for the phrase "I owe you," the sounds of both being identical. The following is an example—

London, 10*th Jan.*, 19..

To Mr. Alfred Brown,

IOU £30 10s. 6d.

William Thornycroft.

Points to be Noted. An IOU does not require a stamp, as it is neither a receipt nor an agreement. It should not contain any promise or date of repayment, otherwise it would require stamping as a promissory note. It is not a negotiable instrument. In a court

of law it is accepted as evidence only of an account stated between the parties mentioned, but not of the amount named. The amount is sometimes written in words as well as in figures.

QUESTIONS

1. What is the statutory definition of a Promissory Note? For what purpose are such notes used, and in what respects do they (*a*) resemble, (*b*) differ from, bills of exchange?
2. What stamp duty is required on promissory notes, and how is it denoted? How many parties are there to a note, and who are they?
3. How many kinds of notes are there? Give an example of each.
4. What is (*a*) a joint promissory note, and (*b*) a joint and several promissory note? Give an example of each. Why are the latter preferable?
5. When is a note payable on demand? Must a note be presented for payment? Can a valid note contain any reference to a collateral security?
6. What is the legal liability of the maker of a note? How far does the Bills of Exchange Act apply to promissory notes? To whom do the drawer and acceptor of a note correspond in a bill of exchange?
7. What are Bank Notes? For what amounts may they be issued, and by whom? Suppose a bank note be stolen, and is afterwards traced to a bona fide holder for value, what is his position?
8. What are Bank Drafts, and for what purpose are they used?
9. What is an IOU? Give an example. Is it legal evidence of debt?

CHEQUES

Definition. By the Bills of Exchange Act, 1882—

A cheque is a bill of exchange drawn on a banker payable on demand.

And, with a few exceptions, the provisions of the Act applicable to bills of exchange payable on demand apply also to cheques.

The following is a specimen of a cheque—

No. 365,907 6 *Jan.*, 19.. *Retrop & Co.* *a/c* *rendered.* £76 15s. 9d.	No. 365,907. LONDON, 6*th Jan.*, 19.. Stamp 2d. **THE ENGLISH BANK, LIMITED,** **LONDON, E.C.** Pay to *Messrs. Retrop & Co.* or Order the sum of *Seventy-six pounds fifteen shillings and ninepence.* £76 15 9 ARTHUR J. BROWNLEY.

Great care should be exercised in the drawing of cheques. The banker is liable to the drawer for any loss resulting from his paying a cheque with a forged signature or fraudulently altered, but the *drawer* is liable for contributory negligence. This means that if he makes the fraudulent alteration more easy by his own carelessness the drawer, and not the banker, will have to suffer the loss of the additional amount so paid out.

The form is perforated ready for division into two parts. The smaller portion, called the **counterfoil,** is retained in the cheque book for reference. The larger portion, called the **cheque**, is forwarded to the payee mentioned thereon. In the case of large firms and of limited companies, the names of such firms or companies are often printed at the top of their cheques, and in fact the whole of the cheque is specially printed as required by the firm.

Bearer Cheques. A bearer cheque is one payable to bearer, i.e. that can be cashed or negotiated without previous endorsement.

Order Cheques. An order cheque is one payable to a certain person's order. It must be endorsed before it can be cashed or transferred. The endorsement by the payee turns an order cheque into a bearer cheque unless the payee endorses it payable to the order of someone else.

Open Cheques. An open cheque is one that has not been crossed, i.e. one that can be cashed over the counter.

Stale Cheques. A stale cheque is one that has been drawn for some time previous to presentation for payment, i.e. one that is some months old.

Alterations on a Cheque. All material alterations must be initialed by the drawer. Owing to forgeries in this respect, some bankers require full signatures instead of mere initials. Only the drawer may alter a cheque from order to bearer, but either the holder or drawer may alter a bearer cheque to an order cheque. The latter alteration does not require initialing. Where the amount expressed in words does not agree with the amount expressed in figures, the banker is bound *by the words*. Many bankers, however, return such cheques for correction.

Post-dated Cheques. These are cheques that bear a date later than the current date on which they are drawn. They cannot, however, be cashed before the proper date. If they are paid in to a bank for collection the banker will return them, unless instructed to keep them and treat them as short bills. If a banker inadvertently pays a post-dated cheque, he must not debit his customer's account with the amount before the proper date. Although by the Act a cheque "is not invalid by reason only that it is post-dated," yet it is doubtful whether a post-dated cheque for an amount exceeding £10 is valid, owing to the stamp on it being only 2d. In book-keeping, post-dated cheques are best entered "short"

(i.e. the amounts not extended into the money columns) in the Cash Book, in order to prevent their being lost sight of; on the proper date they can then be re-entered in the usual way.

Fictitious or Non-existing Payee. Where a cheque is payable to a fictitious or non-existing payee, such as a cheque drawn payable to *Wages*, *Petty Cash*, or *Order*, it may, by Section 7 of the Bills of Exchange Act, 1882, be treated as a cheque payable to bearer, that is, as not requiring an endorsement. Some bankers, however, request the person drawing the money to sign his name on the back of the cheque, while others require the personal signature of the drawer of the cheque; but the majority cash them without any endorsement. It appears that the endorsement of the drawer is required by the former on the ground that an "impersonal" payee is not a "fictitious" payee within the meaning of the Act.

Crossed Cheques. The provisions of the Bills of Exchange Act with reference to the crossing of cheques are found in Section 76 to Section 78, and are as follows—

By Section 76—

1. Where a cheque bears across its face an addition of—

(*a*) The words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or

(*b*) Two parallel transverse lines simply, either with or without the words "not negotiable"; that addition constitutes a crossing, and the cheque is crossed generally.

2. Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially and to that banker.

By Section 77—

1. A cheque may be crossed generally or specially by the drawer.
2. Where a cheque is uncrossed, the holder may cross it generally or specially.
3. Where a cheque is crossed generally, the holder may cross it specially.
4. Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."
5. Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.
6. Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.

Section 78 enacts—

A crossing authorized by this Act is a material part of the cheque; it shall not be lawful for any person to obliterate or, except as authorized by this Act, to add to or alter the crossing.

The above provisions apply also to dividend warrants (Section 95).

By the Finance Act, 1883, Section 17, the provisions of the Bills of Exchange Act as to crossed cheques are also extended to

. . . any document issued by a customer of any banker, and intended to enable any person to obtain payment from such banker of the sum mentioned in such document.

Thus, money orders, postal orders, demand drafts, etc., are generally crossed when sent by post or paid into a bank for collection. Such documents, however, are not rendered "negotiable."

It should be noted that the words "and Co.," or "not negotiable," do not alone form a crossing, but are merely additions to a crossing; whereas two parallel transverse lines on a cheque do, in themselves, constitute a crossing.

Specimens of Crossings. We give on p. 198 examples of some of the commonest crossings.

Cancellation of Crossing. Although contrary to the provisions of the Act, the crossing of a cheque can be, and often is, cancelled by the drawer writing in the crossing the words "*pay cash.*" Payees who have no banking accounts frequently ask for this to be done. Cheques to impersonal payees, such as Salaries and Wages, Petty Cash, etc., are sometimes crossed by mistake, and have consequently to be re-opened. Such opening of a crossing needs to be authenticated by the full signature of the drawer.

Object of Crossing a Cheque. The object of crossing a cheque is to prevent its being cashed over the counter by anyone who might accidentally or fraudulently obtain possession of it. A crossed cheque will not be paid to anyone except a banker; and if the banker's name is added in the crossing, then payment will be made only to that particular banker. The practice of crossing originated as a Clearing House custom, and was eventually recognized by law.

Not Negotiable. A cheque being a negotiable instrument, any bona fide holder can retain it, even though the cheque has been lost or stolen. To protect the owner against damage by loss or theft, the words "not negotiable" may be written on the cheque by the drawer or by any holder. The addition of these words does not, therefore, *prevent* the further transfer of the cheque, but is a warning to any person taking it that he may not get a good title.

If the cheque has been found or stolen and passed on to another person, the holder's title is defective, even if he has given value for it; he can legally be made to restore the cheque to its rightful owner.

It should be noted that the phrase "not negotiable" applies, legally, only to crossed cheques. Other documents could, of course, be marked "not negotiable," but it would have no legal effect.

Account Payee Only. Bankers have been in the habit of ignoring this crossing, because it was not found, or provided for, in the Bills of Exchange Act. But custom seems likely to prevail, and, as with other cases of the *lex mercatoria*, eventually to graft itself upon the law. The object of it is still further to protect the drawer against damage should the cheque be lost or stolen. It constitutes a distinct notice to a receiving banker that the drawer desires the cheque to be placed to the credit of a certain account. And if a banker

GENERAL CROSSINGS

1

2
& Co.

3
Not Negotiable

4
Not Negotiable
& Co.

5
Under Ten Pounds
& Co.

6
& Co.
A/c Payee Only

7
Not Negotiable
& Co.
Under Twenty Pounds

8
Not Negotiable
& Co
A/c Payee Only

SPECIAL CROSSINGS

9
Lloyds Bank Ltd.

10
Not Negotiable
Lloyds Bank Ltd.
A/c Westminster Hospital

11
Not Negotiable
Lloyds Bank Ltd.
Under Twenty Pounds

12
Not Negotiable
Lloyds Bank Ltd.
A/c Payee Only

disregards this direction, he renders himself liable to an action for "negligence."

Endorsement of Cheques. Endorsing is the signing of the payee's name on the back (Latin, *dorsum* = back) of the cheque, though apparently it is quite legal if the payee signs his name on the front of the cheque. Bearer cheques do not require endorsing, though endorsements are sometimes obtained, in order to make the transferor a party to the cheque. All order cheques, however, must be endorsed. The payee should sign his name exactly as it is on the face of the cheque; but such courtesy titles as Mr., Mrs., Miss, Capt., Dr., Esq., etc., may be omitted. Where in a cheque the payee's name has been misspelt, the payee is allowed by the Bills of Exchange Act to endorse himself as so described, and to add, if he thinks fit, his proper signature, and a bank would require the endorsement to be exactly as stated on the face of the cheque.

Endorsements in pencil are quite legal, but would not be accepted by the banker owing to the risk of their becoming illegible. Endorsements made by means of a rubber stamp would not be passed until they had been verified by the banker.

Endorsements *per pro.* Endorsements are sometimes made *per procuration*, thus—

per pro. (or *p.p.*) John Smith,
Thomas Atkins.

The full signature is necessary; the initials "T.A." would not be passed by the banker. Endorsements *per pro.* are not accepted on dividend warrants. Bankers are entitled to inquire as to the extent of the power of procuration, and may ask for confirmation of such endorsements.

Examples of Proper Endorsements. The following examples of endorsements necessary in particular cases should be carefully noted—

Payee	Endorsement
F. Brown (*An illiterate person*)	his F. × Brown mark Witness: John Thomas, 5 Romany Road, Southampset.
Robert Bromfield	Robert Bromfield, *or* R. Bromfield (*The full Christian name is not important so long as the initials agree*)
—. Rufus, Esq.	F. (*or other initial*) Rufus (*The mere surname is not a signature*)

PAYEE	ENDORSEMENT
Mrs. Smith	Mary (*or other Christian name*) Smith, *or* M. Smith
Mrs. Henry Rogers	Alice Rogers, wife, *or* widow, of Henry Rogers
Miss Dorothy Higgins (*Now married*)	Dorothy Retrop *or* D. Retrop, *née* Higgins
The Misses Green	Florence Green Agnes Green (*Both must sign*)
Mr. P. Brown (*Misspelling for Browne*)	P. Brown P. Browne
Arthur Roberts, Senior	Arthur Roberts, *or* A. Roberts, *or* A. Roberts, Senior (*Some Banks require the word "Senior"*)
Messrs. Smith	A. & B. Smith, *or* Smith & Son, *or* Smith Bros., *or* Smith & Smith. (*The endorsement must indicate the plural*)
The A.B.C. Co., Ltd.	The A.B.C. Co., Ltd. *or Per pro.* The A.B.C. Co., Ltd., *or* For and on behalf of The A.B.C. Co., Ltd. *or* On Account of The A.B.C. Co., Ltd., *or* For The A.B.C. Co., Ltd., B. Lilley, *Secretary.* (*The first endorsement is the most usual*)
Y. Young (*Now deceased*)	For Y. Young, A. Wallis, (*Executor* or *Administrator*) *or* For Self & Co-Executors (*or Administrators*) of Y. Young, A. Wallis (ONE *executor's signature is sufficient*)

Payee	Endorsement
The Trustees of Y. Young	For Y. Young, A. Wallis, F. Notley, A. Wade, G. Sowerby } *Trustees* (All *the trustees must sign*)
Self	Signature of Drawer
The X.Y.Z. Co., Ltd. (*Now in liquidation*)	For the X.Y.Z. Co., Ltd. (*In liquidation*) Arthur Brown, *Liquidator*
Wages, Petty Cash, etc.	Signature of Drawer *or* Appointed Agent
Messrs. Brown & Johnson, Ltd.	For Brown & Johnson, Ltd., A. Clarke, *Cashier* (*Authorized to endorse cheques*)
Managers of Cramem School	For the Managers of Cramem School, Arthur Donne, *Chairman* *or* Arthur Donne, Alfred Cook, } *Managers of Cramem School*
Capt. W. Smith	W. Smith, *or* W. Smith, Capt. (*Not Capt. W. Smith, as this would not be a signature*)
Treasurer of the Links Golf Club, *or* The Links Golf Club	For the Links Golf Club, Frederick Player, *Treasurer.*

Revocation of Banker's Authority to Pay. The duty and authority of a banker to pay cheques drawn on him by his customer are determined by—

(*a*) Countermand of payment.
(*b*) Notice of the customer's death.
(*c*) Notice of his insanity, legally declared.
(*d*) Notice of an act of bankruptcy on the part of the customer.
(*e*) Receipt of a garnishee order.

Want of funds, or any irregularity in the drawing or endorsing of the cheque, will also cause a banker to stop payment. See later under "Dishonoured cheques."

Cheque not Legal Tender. A cheque, it should be noted, is not legal tender. The only paper money that is legal tender in England and Wales is the Bank of England Note.

Property in Cheques. A paid cheque is, legally, the property of the drawer. Some banks return the paid cheques at periodical intervals; others do not.

Stamp on Foreign Cheques. A foreign cheque, i.e. one received from abroad, requires a twopenny stamp affixed to it, before it can be dealt with in this country.

Forgery. A forged cheque is one on which the name of the payee or the amount of the cheque has been falsified, or on which the signature of the drawer is not genuine. A banker is liable for any loss caused by his paying a cheque on which the signature of the drawer has been forged; but he is not liable for any loss caused by his paying a cheque bearing a forged endorsement.

Receipt Form on Cheques. In modern business the practice has grown up of having receipt forms printed at the foot or on the back of cheques. The signature on the receipt is intended to act also as an endorsement; but many bankers require an endorsement as well, not deeming the receipt a sufficient discharge of the cheque. Cheques for salaries should bear a notification to that effect so that the bankers may know they are exempt from receipt stamp duty.

Cheques sent through the Post. If the drawer makes the post office his agent he must bear any loss arising from the miscarriage of the cheque. If, however, the payee has requested a cheque to be sent by post, the post office becomes the agent of the payee, who is, therefore, liable for any loss.

Cheque Stamp and Cheque Books. A piece of ordinary writing paper with a twopenny stamp affixed, ordering a banker to pay money, is legally a "cheque." There is an erroneous idea abroad that anyone can affix the stamp. The stamp, however, must be affixed by the drawer, and must be properly cancelled by him. Stamping by a subsequent party does not remedy the defect. The banker may affix a stamp and cancel it, and may deduct the twopence from the amount payable, or debit his customer's account. The other parties, however, are still liable to the penalty of £10 for issuing or dealing with an unstamped document.

The usual practice of bankers is to supply their customers with books of specially printed and numbered cheque forms. The object of this is the prevention of forgery. Each cheque, being an order to pay, must bear a 2d. stamp. Bankers make no charge for the book of forms, but debit their customers with the cost of the impressed revenue stamps. Fresh cheque books are obtained by the

customer filling up and presenting the bank's printed application forms.

Dishonoured Cheques. A dishonoured cheque is one which a banker, for some reason or other, has refused to pay on presentation. Such cheques generally have some explanatory phrase written on them, as follows—

No assets, N/A.
No effects, N/E.
Refer to drawer, R/D.
Not sufficient (funds), N/S.
Insufficient funds, I/F.
Endorsement irregular.
Words and figures differ.
Drawer's signature differs (i.e. from that in Bank's signature book).
Alterations require drawer's signature.
Drawer deceased.
Receipt (i.e. on cheque) requires stamp.
Account closed.
Cheque mutilated.
Effects not cleared. Present again.
Post-dated.
Payment stopped, or Orders not to pay.

Dishonoured cheques may, of course, be noted, and those bearing foreign endorsements may be protested.

Lost Cheque. Where a cheque has been lost, the holder can compel the drawer to give him a new cheque, but must give security to the drawer, if required, to indemnify him in case the lost cheque should be found and negotiated. The cheque should be marked "Duplicate," and the paying banker instructed to pay it.

Points of Difference between Cheques and Bills. Although a cheque is *legally* a bill of exchange, the following differences exist—

1. A bill requires acceptance. A cheque is never accepted by a banker. The acceptor of a bill is liable to the holder for refusing payment of it.

2. The drawer of a bill is discharged from liability by delay in presenting it for payment; the drawer of a cheque is not.

3. Notice of dishonour is necessary in the case of a bill not being met, but not in the case of a cheque.

Contingent Liability. This is a liability which, as its name implies, will have to be met only on the happening of a certain contingency and therefore may never come to fruition. From the book-keeping point of view the difficulty lies in the fact that the liability does not appear in the books, with the result that it would also be missing from the figures in the Balance Sheet, and to that

extent the Balance Sheet is inaccurate. It arises in the case of bills of exchange, when a bill has been discounted before the close of the books for the year but the maturity date of which falls in the next financial period.

Example. A receives a three months' bill from B for £100 dated 1st October at three months after date and therefore due for payment on 4th January. On 1st November he discounts this bill with his banker, the discount charge being 17s. 6d.

LEDGER

Dr. B *Cr.*

		£ s. d.			£ s. d.
19..	To Goods . . .	100 - -	19.. Oct. 1	By Bill Receivable No. .	100 - -

Dr. BILLS RECEIVABLE *Cr.*

		£ s. d.			£ s. d.
19.. Oct. 1	To Bill Book . .	100 - -	19.. Nov. 1	By Bank, Bill Receivable No... discounted .	100 - -

Dr. BANKERS' DISCOUNT *Cr.*

		£ s. d.			
19.. Nov. 1	To Bank . . .	17 6			

Dr. CASH BOOK *Cr.*

		£ s. d.			£ s. d.
19.. Nov. 1	To Proceeds of Bill Receivable No... discounted . .	100 - -	19.. Nov. 1	By Discount charge on Bill Receivable .	17 6

It will be seen from this example that on the receipt of the bill by A the debt was converted in the books from a personal debt owing by B (and appearing as one of the sundry debtors) to an impersonal debt in the form of a bill of exchange, and in so far as A still held it he had no liability on it. On the discounting of it on 1st November two things happened. The bill disappeared from the books as such and its identity was lost in the balance at the bank. At the same time, by negotiating it to his banker A made himself liable to repay the £100 to the bank in January in the event of B failing to pay at maturity. This liability on the part of A therefore exists at 31st December, but does not show in the books and cannot

appear among the Assets and Liabilities on the Balance Sheet. The only way in this case is to show the item as a footnote as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
	£		£
Contingent Liability for bill under discount £100			

In order to arrive at this figure it is necessary to obtain a list of all bills discounted before the date of the account but maturing afterwards.

Other contingent liabilities, some of which must be pure estimation, would be—

1. Possible payments to be made under a lawsuit as yet unsettled.
2. An unliquidated figure in respect of dilapidation.
3. A liability for calls on partly paid shares.

QUESTIONS

1. What is the statutory definition of a cheque? Give a specimen.

2. Explain the following terms: Bearer cheque, order cheque, counterfoil, stale cheque, post-dated cheque, fictitious payee.

3. What is a crossed cheque? What is the object of the crossing? Give examples of (*a*) general crossings, (*b*) special crossings, and explain the following phrases sometimes added to crossings: "not negotiable," "A/c payee only."

4. What is meant by endorsing a cheque, and when is it (*a*) necessary, (*b*) not necessary? What is a "per pro." endorsement? Is it always accepted by bankers?

5. What endorsements are required on the following—

(*a*) Cheque payable to an illiterate person;

(*b*) Cheque payable to a deceased person who has (1) died intestate, (2) appointed an executor, (3) left his estate in the hands of trustees;

(*c*) Cheque payable to a married lady (1) in her maiden name, (2) in her husband's name;

(*d*) Cheque payable to a person whose name is misspelt;

(*e*) Cheque payable to the holder of an office;

(*f*) Cheque payable to a limited company (1) in active business, (2) in liquidation;

(*g*) Cheques payable to (1) Self, (2) —. Cook, Esq., (3) Dr. B. Brown, (4) Messrs. Green, (5) Wages or Order, (6) Wages or Bearer, (7) Mr. Brownley, (8) Mrs. Finch, (9) The Misses Donnington, (10) The Aristocratic Tennis Club?

6. What legal and other circumstances revoke a banker's duty and authority to pay his customer's cheques?

7. What is a forged cheque? How far is a banker liable on it? Can alterations be made on a cheque?

8. "Bankers usually mark returned cheques." Write down some of the most usual markings and explain briefly what they signify.

9. Is a cheque legal tender? Give reasons for your answer. To whom do paid cheques belong, and what is the practice of bankers therewith?

10. What is the position of the respective parties thereto if a cheque is lost (1) accidentally, (2) by miscarriage in the post?

11. What is a cheque book? Must a cheque always be drawn on the banker's printed form?

EXERCISE VI

1. Enter the following in the Journal and Cash Book—

(1) R. Red handed us a P/N for £30 lent him.

(2) Accepted draft drawn on us at 3 m/d for £200 by Francis & Co. in favour of D. Devon.

(3) Gave Blue & Co. a bill at 2 m/d for £95.

(4) Bought goods, £150, from Sharp & Co., for 2 months' bill less 5 per cent discount.

(5) Handed Ridler & Son our acceptance at 3 m/d for £90.

(6) Received H. Hughes' acceptance for £120 from S. Straker.

(7) Discounted N. Notley's acceptance for £120, discount charged £1 10s.

(8) Received bill, dated 1st Jan., at 10 d/d for £120 from M. Monk.

(9) Drew on Green & Co. for £190, allowing them discount £10.

(10) Sent N. Norfolk sight draft for £125.

(11) Drew on J. Rowell at 60 d/s for £420. Endorsed first of exchange: "Pay to the order of M. Goodman," and forwarded it to the latter.

(12) Henry & Co.'s P/N for £40 duly taken up.

(13) Sold goods, £120, to B. Blunt, for 2 months' bill, less $2\frac{1}{2}$ per cent discount.

(14) Sold goods for £150 to York & Son, and received in payment our own acceptance to Bull & Son for £150 due to-day.

(15) Our P/N to M. Martin for £120 redeemed to-day.

(16) Discounted G. Graham's acceptance for £150, due 3 months hence, with Sheffield, Sons & Co., bill brokers, discount rate $3\frac{3}{4}$ per cent.

(17) Sent Perrier Frères, Paris, 7 days' draft for £100.

(18) Accepted Dark & Co.'s draft for £285, being allowed discount £15.

(19) Provide solutions to the following—

(*a*) Sketch the form of a bill of exchange, inserting all details therein that will show it to be a negotiable instrument. Further, prepare the necessary accounts in support of the transactions from the viewpoints of the several parties thereto.

(*b*) A bill drawn on B for £100 was endorsed over to K, who subsequently presented it to B for payment, but was unsuccessful. K thereupon noted the bill. Prepare the accounts required by the above transactions, as they affect (*a*) the drawer, and (*b*) K.

(*c*) B draws on F for £100. On maturity the bill is dishonoured. Show the book-keeping records on dishonour in B's books which would apply under three different circumstances.

2. Record the following in Journal and Cash Book—

(1) Blue & Black's acceptance for £200 renewed for 3 months, plus interest at 5 per cent and bill stamp.

(2) G. Gulliver's acceptance for £450, due this day, returned dishonoured. Noting charges, 5s.

(3) Wilson & Jones retire their acceptance for £420 by cheque £120, and a new bill at 1 m/d for the balance, interest at 5 per cent, together with the bill stamp, being paid in cash forthwith.

(4) L. Lambe's acceptance for £460, due this day, notified by our creditors (Charles & Son) as being dishonoured, noting charges paid by them, 5s. 6d. Withdrew same in exchange for our cheque.

(5) Retired our acceptance to Brockwell & Haigh for £630 by cheque £230, and a new bill at 2 m/d with interest at 4 per cent for the balance, being charged also with bill stamp.

(6) Our acceptance to Locke & Co. for £300 renewed for 4 months, plus interest at 3½ per cent and bill stamp.

(7) Our own acceptance to Dawson Bros. for £345 dishonoured (through omitting to instruct bankers to pay). Dawson Bros. send us debit note for £345 10s. 8d., including noting expenses. We settle same by cheque.

(8) Needham & Co.'s acceptance for £425, due this day, returned by bank dishonoured, with noting charges 4s., and expenses 3s. 6d.

(9) Frame & Son's acceptance for £1,055 due this day, returned by bank dishonoured, with noting expenses £1 2s. 3d. Renewed same for 5 months with interest at 6 per cent, noting expenses, interest, and bill stamp being paid in cash forthwith.

3. Write up in the books of both parties the Ledger accounts (including Cash) for the following transactions in bills—

(*a*) On 1st January, S. Silverman accepts a 3 months' bill for £125, drawn on him by G. Goldstein for the latter's benefit. Goldstein discounts the bill at the rate of 3½ per cent, and at maturity forwards Silverman a cheque with which to meet the bill.

(*b*) On 1st March, P. Paterson and I. Ingram draw on one another at 3 months for £135 for their mutual convenience. They discount each others' bills at the rate of 4 per cent, and, at maturity, each meets his own acceptance.

(*c*) On 1st February, H. Hooker accepts a three months' bill for £115 drawn on him by E. Evans for their mutual accommodation. The bill is then discounted by Evans at the rate of 3¾ per cent, and half the proceeds handed to Hooker. At maturity Evans sends a cheque to Hooker, who then pays the bill.

4. Darlow & Walsh are the acceptors of a bill of four months date for £659 14s. 8d., due on the 24th January. A few days before it matured, Darlow & Walsh found they could not meet it and wrote to the drawers, Messrs. Earle & Creasey, requesting them to renew the bill for three months, adding interest at 5 per cent per annum. The drawers (Earle & Creasey) expressed their willingness to do so conditionally upon Darlow & Walsh lodging security with them for the amount of the renewed bill. Messrs. Darlow & Walsh offered as security five customer's bills, viz.—

(1) H. G. Bourner & Co.'s bill, £209 11s. 6d., due 14th February.
(2) Neville & Co.'s bill, £173 4s. 9d., due 26th February.
(3) James Hordarn & Co.'s bill, £89 14s. 8d., due 25th March.
(4) George Blakey & Co.'s bill, £82 16s. 0d., due 19th April.
(5) Smith, Wilks & Co.'s bill, £112 12s. 9d., due 26th April.

Each of the above five bills was discounted by Earle & Creasey's bankers, and Darlow & Walsh's renewed bill was paid into the bank one month after its acceptance. Bills 1, 2, and 4 were duly honoured. Bill 3 was dishonoured and returned to Earle & Creasey, who drew a cheque for its amount, plus 7s. 6d. noting expenses. Darlow & Walsh, on being called upon, made good this amount ten days later.

Bill 5 reached maturity the same day as Darlow & Walsh's renewed bill, and both were dishonoured.

(*a*) Draw the renewed bill, adding £1 8s. 11d. for stamp and other expenses, also 5 per cent interest for the term of the bill's currency.

(*b*) Show Earle & Creasey's Journal entries.
(*c*) Show Darlow & Walsh's Account as it appears in Earle & Creasey's Ledger.
(*West Riding of Yorkshire.*)

5. (*a*) A bill for £105 is drawn at 6 months from the 1st October, by Smith on Rhodes, and accepted by the latter payable at X Bank. What stamp duty does this bill require, and when is it due for payment?

(*b*) On the 11th December, Smith discounts the bill with Hurst, and receives £100 cash.

(*c*) The bill is dishonoured on maturity, but is taken up by Smith on the 7th April.

Show by means of the Journal the necessary entries to record the above transactions—(*a*), (*b*), and (*c*)—in Smith's books.

6. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at 3 months for £600, dated 1st January. Jones discounts this bill immediately at his bankers, the rate of discount being 5 per cent, and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a bill at 3 months on Jones for £300. This he discounts at his bankers at 5 per cent, and hands half the proceeds to Jones. Brown becomes a bankrupt on 31st March, and a first and final dividend of 5s. in the £ is paid on his estate on 30th June.

Write up Brown's account in Jones' book. Assume, in each case, that one half of the charge for discounting the bill is chargeable to Brown and one half to Jones.
(*London Chamber of Commerce.*)

7. You are preparing the Balance Sheet of a Limited Company of which you are the chief accountant, and find that there are bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1,000 worth of these bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10s. in the £ on the £1,000. How would you deal with these bills under discount, and how should they appear in the company's published accounts?
(*London Chamber of Commerce.*)

8. On 1st January, A owes B £6,000, for which B receives two acceptances from A, one for £2,000 payable in 2 months, the other for £4,000 payable in 4 months, in each case from 1st January. B duly discounts both these acceptances with his bankers on 3rd January at 4 per cent.

Before the first bill becomes due, A requests B to assist him in taking it up by providing him with £1,000 in cash, and drawing a third bill on A for that amount at 3 months from the due date of the first bill, plus interest at 5 per cent per annum; B agrees to this proposal and advances the money, discounting the bill with his bankers at 4 per cent.

A week before the second bill for £4,000 falls due A again asks B to assist him to the extent of £2,500. B, however, is not in a position to do this, and, as his bankers will not discount any more of A's acceptances, he arranges with A to draw on him (B) two bills for £1,131 16s. 8d. and £1,408 3s. 4d. at 2 months and 3 months respectively from the due date of the £4,000 bill. B duly accepts these two bills and remits them to A, who discounts them with his bankers at 4 per cent, and, assisted by the proceeds, duly meets the £4,000 bill. B also meets his two bills on maturity. On 7th June A becomes bankrupt, leaving his third bill unpaid. Make the necessary entries in B's books to give effect to the above transactions.
(*London Chamber of Commerce.*)

9. From the following particulars compile detailed Bills Receivable and Payable Books, and post them to proper Ledger accounts—

(N.B. All our acceptances were made payable at our bankers, Royal Bank.)

Mar. 2. Drew on Green & Golding at 1 m/d for £152, allowing them discount £8. Bill No. 129.
„ 3. Received Green & Golding's acceptance, payable at the Safe Bank, City.
„ 3. Accepted Philips & Son's draft of the 2nd inst., at 2 m/d in favour of Ogden & Co., £237 16s. 4d. Bill No. 95.
„ 9. Received of Ellis & Co., J. Thomson's acceptance to them for £85 16s. 10d., dated 9th Jan., at 2 m/d, payable at Union Bank, Holborn.
Mar. 12. Gave Lonsdale & Sons our acceptance, dated 11th inst., at 10 d/d for £125.
„ 12. Received Pavey & Lord's acceptance of our draft of yesterday at 3 m/d for £120 12s. 6d., payable at Bank of England, Liverpool.
„ 16. Allott, Jones & Co. forward me B. Bunker's acceptance to them for £185, payable at Midland Bank. Bill drawn 15th Feb., at 60 d/s, acceptance being dated 28th Feb.
„ 21. Received Sowerby & Wade's draft on us of the 19th inst., at 1 m/d, in favour of Lewry & Son for £166 1s. 8d., discount allowed, £8 14s. 10d. Returned same duly accepted.
„ 22. Drew on Bayes & Kerry at 4 m/d, for £214 9s. 3d., allowing discount, £11 5s. 9d.
„ 23. Received Bayes & Kerry's acceptance, payable at Parr's Bank, City.
„ 27. Received Green & Noel's draft on us of yesterday's date for £299 15s., at 3 m/d, with interest at 5 per cent. Returned it duly accepted.
„ 30. Returned, duly accepted, T. Nicholson's draft on us, dated 29th inst. at 4 m/d, for £66 13s. 8d. in favour of Gardner & Isbister.
„ 31. B. Bearon forwards us L. Levar's acceptance to H. Moore for £116 2s. 6d. Bill dated 29th Jan., at 2 m/d, and payable at Joint Stock Bank, Leeds.
„ 31. Accepted G. Graham's draft on us, dated 21st Mar., at 90 d/s, for £134 13s. 3d., discount allowed £7 1s. 9d.

Bill No. 130 was duly met. No. 132 was discounted. No. 134 was dishonoured. No. 131 was endorsed over to Mandrakes, Ltd., on the 11th of June. Acceptance No. 96 was duly honoured, and No. 95 was renewed on 4th May.

10. What is meant by "renewing" a bill? Give, in both parties' books in each case, the Journal entries for the following—

(*a*) Welt and Dray renew a bill for £126 15s. 8d., for their customer, F. Frost, for $2\frac{1}{2}$ months with interest at $3\frac{3}{4}$ per cent, plus bill stamp.

(*b*) S. Storm, a creditor of Jenkins & Co., renews a bill for £226 14s. 11d. for $3\frac{1}{2}$ months, with interest at $4\frac{3}{4}$ per cent, plus bill stamp.

11. T. Talbot receives his customer's acceptance for £120. State the different ways in which he can deal with this bill, and give the Journal and Cash Book entries for each way. Assuming the bill to be dishonoured in each case, give the necessary Journal and Cash Book entries.

12. Give a written explanation of a method of procedure in dealing with bills of exchange transactions which, in your judgment, would ensure a clear grasp of the facts. Support your answer by solutions—with notes—to the following problems.

(1) S, who discounted a bill he had drawn on J, has been notified by his banker that J failed to meet it on presentment for payment.

(2) M and B draw on each other for £100 on 1st March. Each discounts the other's bill and, at maturity, each party honours his acceptance. The bankers charged 5 per cent for discounting.

(3) L drew on M; endorsed over to N; but on the advice of N that M was unable to pay, L met the bill. Show the records in (*a*) L's books, (*b*) M's, and (*c*) N's books respectively.

13. Write up in the several books to which they properly belong, the following transactions—

19..

Jan. 2. Sold James & Co., 20 tons 10 cwt. 2 qrs. Steel Bars at 103s. 4d. f.o.b.

,, 2. Paid Carriage thereon at 2s. 6d. per ton, by Cheque on "Provincial Bank."

,, 2. Received cheques—J. Tasker, £47 10s.; W. Methley, £39 15s.; and from J. Moulton, £43 17s. 6d. in payment of his Account after deducting $2\frac{1}{2}$ per cent Discount.

,, 6. Received from W. Lyons, 150 tons Pig Iron at 43s. 4d., less 3 per cent—remitted him acceptance at 3 months, dated 1st January.

,, 7. Received from J. Kitson his acceptance at 4 months, dated 4th inst., for £178 10s., in payment of his Account.

,, 9. Gave Cheques for—Rent, £100, quarter year due 1st January; Salaries, £25; and for Wages, £75.

,, 11. Received from "Provincial Bank," J. Butler's Dishonoured acceptance for £35 6s. 8d., with 7s. 6d. expenses.

(*London Chamber of Commerce.*)

14. William Ashton is a shipbuilder. On 1st January he had a Capital of £23,760 7s. 8d., Bills Payable current No. 135, £640 8s., No. 136, £728 10s., No. 137, £320 17s. 6d., and having received on Account of Ships in progress, "Owl," £6,849, and "Hawk", £3,500. A Mortgage to P. Piper for £8,000 existed on his Works and Plant, which were valued as follows: Freehold Works and Buildings, £9,127 10s., Fixed Plant and Machinery, £7,826 15s., Dry Dock, £6,284, Loose Plant and Rolling Stock, £2,788 5s. 6d.

He owed to Brown & Co., £848 19s., Jones & Co., £1,653 10s., Robinson & Co., £984 17s. He had Cash at Bankers, £2,796 8s. 8d., and in Office, £120 14s. 6d. His Bills Receivable in hand were No. 186, £329 6s. 6d., No. 187, £546 10s., No. 188, £490 9s. 6d.

He had three ships under construction, on which he had expended in Work and Materials, "Owl," £7,126, "Hawk," £4,291, "Sparrow," £835. The Stock of Stores and Materials on hand, valued at cost price, was £4,724 9s. 6d.

You are required to make the necessary "opening entries." (*R.S.A.*)

15. On 1st September, 1948, V. Whiting drew on R. Salmon a bill of exchange for £1,500 in settlement for goods supplied. The bill, which was expressed payable four months after date, was accepted next day, and was discounted on 3rd September with R. Sturgeon for £1,473 15s. 3d. Shortly before the due date Salmon advised Whiting he would be unable to meet the bill, but could provide £500 towards it; accordingly Whiting advanced Salmon the balance of £1,000. In return he received from him, on 4th January, 1949, four new bills, all of equal amount, payable respectively after two, four, six, and eight months, to cover the principal sum, together with interest at the rate of 5 per cent per annum.

Set out these transactions as they would affect Whiting's Cash Book and Ledger. Entries in the Journal or subsidiary books are not required.

(*London Chamber of Commerce.*)

16. Robinson, on 31st August, buys from Tuck & Co. 150 tons of coal at 7s. 6d. a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of $2\frac{1}{2}$ per cent. He pays 1s. 3d. a ton for carriage by rail and 9d. a ton for cartage. He sells the coal to a Sheffield manufacturing Company at

12s. 6d. a ton on 14th September, and draws a bill at two months for the amount. The bill is dishonoured at maturity, but is immediately paid by the manufacturing Company upon demand being made to them. Draw the bill of exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10 per cent on the original cost of the coal for establishment expenses.

(*London Chamber of Commerce.*)

17. What are Bills of Lading, and what do you understand by the term "Drawing as against Bills of Lading"? (*London Chamber of Commerce.*)

18. John Nightingale, East Street, Sheffield, sells to the Low Moor Iron Co., on 4th March, 40 tons of Scotch Iron at 45s. per ton; 10th March, 100 tons of Swedish Iron at 44s. per ton; 19th March, 80 tons of Hematite Iron at 42s. per ton; and receives, 30th March, £200 on account, and on 2nd April, a Bill of Exchange at three months for £250.

(*a*) Make out an Invoice of the first transaction.
(*b*) A Statement of Account on 12th July; and
(*c*) Draw the B/E mentioned above, make it payable in Leeds, and write upon it an acceptance for payment at the Leeds Joint Stock Bank, Ltd.
(*d*) Note at the left-hand side the amount of Stamp Duty.
(*e*) Also rule a form of John Nightingale's Bill Book, and enter in it the particulars of this Bill.

What entries would appear in the Low Moor Iron Co.'s Books in respect of the B/E mentioned in the foregoing question? (*West Riding of Yorkshire.*)

19. X owed Y £1,555 for goods supplied. The account was settled on 1st October, 1948, by X giving Y a cheque for £305, a three months' bill of exchange for £600, and a five months' bill for the balance.

The first bill was met when due and at the same time the second was withdrawn in consideration of two further bills, equal in amount, due on 1st June, 1949, and 1st September, 1949, respectively. Interest on the renewal was payable forthwith in cash, calculated at the rate of 4 per cent per annum.

Show the above transactions as they would appear in Y's Ledger and Cash Book up to March, 1949. Ignore days of grace and calculate the interest on the basis of months. (*R.S.A.*)

20. Record the following matters in the Cash Book of Jonas Wilkinson—

June 4. Discounted at bank bill receivable for £400, the discount charge being £4 4s.
,, 6. An amount of £360 due to Frank Kilner paid by cheque, $2\frac{1}{2}$ per cent discount being deducted.
,, 10. Obtained cheque book from the bank, the cost of which (£2) was charged against the banking account.
,, 13. Received from William Dawson in cheques, postal orders and cash, £77 2s. 4d., and allowed him discount, £2 7s. 1d.
,, 15. Paid into Bank, £70.
,, 17. Drew and cashed cheque to make the following payments—

	£	s.	d.
Stationery	3	7	6
Petrol and Oil	6	10	–
Wages	15	–	–
Amount of cheque	24	17	6

June 18. A. Brewer's cheque for £20 received from William Dawson on the 13th inst. is returned by the bank marked "R/D."

,, 30. The bank pass book shows £3 8s. to have been credited on this date for interest.

Balance the book, and carry down the balances.

(Faculty of Teachers in Commerce.)

21. Give a brief outline of the general characteristics of Account-keeping, with special reference to such classes of business with which you may be acquainted.

(London Chamber of Commerce.)

22. In order to guard against irregularities in the matter of cash, what special rule would you lay down as to dealing with Receipts and Payments in a City House, where the transactions were both large and numerous? Sketch out a form of Cash Book where there would not only be a saving of labour, but where there would be a minimum of risk from improper dealing with cash by an employee. Sketch also a form of Petty Cash Book, and state what class of expenditure you would have entered therein, and in what way, and to what extent, such Petty Cash Book would be subsidiary to the General Cash Book.

(London Chamber of Commerce.)

23. Referring to the preceding question, and having prepared the forms asked for, enter therein the following Receipts and Payments—

			£	s.	d.	£	s.	d.
Jan.	1.	To John Smith, monthly A/c, Dis. 59s. . .	147	10	–			
		By William Jones, Cheque, Dis. 88s. . .				215	12	–
		,, Petty Cashier, Cheque				20	–	–
,,	2.	To F. Page, Balance of A/c	73	6	8			
		By Bills Payable Frost's Dft.				146	7	8
		,, Office Wages, 1 month				52	6	8
		,, Carriage, Pickford's A/c				3	5	–
		,, Postage and Bill Stamps				1	17	6
		,, Quarter Year's Gas A/c				2	14	9
		,, Office Cleaning and Caretaker . .				1	17	8
		,, City Bank, paid in				220	16	8

(London Chamber of Commerce.)

24. A draws a bill of exchange on B, for goods supplied, for £10,000, dated 1st January, at six months, and, on B's acceptance of the same, discounts it with C on 4th January, at 5 per cent per annum. The Bill is dishonoured at B's Bankers on presentation, the charges for noting and expenses being 5s. B pays A cash £4,000 on account on 5th July, and accepts three bills for the balance then due, together with interest at 5 per cent per annum, of equal amounts, payable at two, four, and six months respectively. Show these transactions in A's Ledger. *(Chartered Accountants.)*

25. Messrs. Dodger & Co., Colliery Proprietors, Burnley, sold to Messrs. Ibbetson & Co., of London, in wagons at Burnley, 120 tons of best House Coal, at 8s. 9d. per ton, with a charge of 9d. per ton for wagon hire. The terms were cash, but Ibbetson, not finding it convenient to pay cash down, agreed to accept Dodger's draft at 3 months, dated 1st March, for the amount of invoice, plus 2 per cent commission and 5 per cent discount. The draft was duly accepted; but, before its maturity, Ibbetson, not having sold the coal, arranged to have the draft withdrawn, to pay in cash £20 on the 1st June, and to accept a draft at 2 months for

the balance, plus commission and discount at the rate charged on the former draft. This was duly carried out, the £20 was paid, and the fresh draft met at its maturity on the 4th August.

Prepare the Day Book, Journal, and Cash Book entries, giving effect to the transaction, and post to a Ledger Account as representing Messrs. Dodger & Co.

(*London Chamber of Commerce.*)

26. A. F. Walters and J. B. Smith are in partnership as pipe manufacturers; they also rent and work a retail shop. Profits or losses are shared as follows: A. F. Walters two-thirds, J. B. Smith, one-third. The shop manager sends in weekly returns of all transactions, and these returns are duly incorporated in the books of the head office. You are required to prepare a Trading and Profit and Loss Account for the year ended 28th February, and a Balance Sheet as on that date; a separate Trading Account is also required showing the working results of the shop.

The following is a list of the Ledger Balances as extracted by the head clerk of the firm as on 28th February—

	£		£
A. F. Walters, Capital A/c	6,200	Office Expenses, Postage, etc. (factory)	395
J. B. Smith ,,	3,500	Law Expenses and Audit Fee (factory)	41
Plant and Machinery	3,280	Bad Debts written off (factory)	8
Fixtures and Fittings (factory)	620	Discount, Cr. Balance (factory)	282
Purchases	11,780	Provision for Bad Debts as on 1st March	74
Sales (factory)	19,353	Sundry Debtors	2,520
,, (shop)	7,538	Furniture, Fixtures, and Fittings (shop)	980
Manufacturing Wages	6,433	Bills Receivable	2,000
,, Expenses	891	,, Payable	78
Rent, Rates, Taxes, Light, and Insurance (factory)	360	Salaries of Manager and Assistant at shop	266
(shop)	423	A. F. Walters (Drawings A/c)	1,212
Stock on hand, 1st March (factory)	3,828	J. B. Smith ,,	606
,, ,, ,, (shop)	747	Cash at Bank	2,512
Cash Purchases (shop)	62	,, in hand (factory)	7
Sundry Creditors	2,428	,, ,, (shop)	50
Travellers' Commission (factory)	152		
Office Salaries (factory)	280		

Before preparing the annual accounts, the following adjustments are necessary—

Interest is to be credited upon the Capital Accounts at 5 per cent.

Provide for: Rent, Rates, etc., Account (factory) for rent accrued due 28th Feb., £78; Rent, Rates, etc., Account (shop) two months' rent due to 28th Feb. (the annual rent of the shop is £360); Audit fee, £36.

The Manager of the shop is entitled, under his agreement, to a commission of 2 per cent on the gross profit realized by the shop.

Plant and machinery are to be depreciated at 10 per cent. Fixtures and fittings are to be depreciated at 5 per cent.

Provision for Bad and Doubtful Debts is to be made at $2\frac{1}{2}$ per cent.

The stock on hand as on 28th Feb. was valued as follows—

Factory	£3,105
Shop	470

The goods supplied by the factory to the shop during the year were priced out at £4,199 cost price.

(*London Chamber of Commerce.*)

27. On 31st December, Messrs. Arthur Wilson and John Bookman are in partnership as Cigarette Merchants, profits divided equally. Before the net profit can be ascertained the following adjustments must be made, which adjustments may be made through the Profit and Loss Account and the Balance Sheet; separate Ledger Accounts need not be introduced.

1. Interest on Partner's Capital at 5 per cent from 1st July.
2. Charge to the period the correct proportion of the prepaid Insurance Premium.
3. Write off half of J. Macmillan's Dishonoured Bill.
4. Create a Provision of 5 per cent on Sundry Debtors.

	£		£
A. Wilson (Capital A/c)	7,250	Bills Receivable	950
John Bookman (Capital A/c)	4,685	Plant and Machinery	2,880
Arthur Wilson (Drawings A/c, including Interest)	640	Sundry Debtors (including John Macmillan, for dishonoured Bill, £100)	6,200
John Bookman (Drawings A/c, including Interest)	410	Loan A/c . . . *Cr.*	2,000
Wages, Manufacturing	4,097	Insurance, etc. (including Premium of £30 per annum paid to end of March next)	40
Returns Inwards	278	Cash	53
Purchases (including Government Duty)	25,659	Bank	1,897
Sales	35,643	Repairs and Renewals	337
Commission . . . *Cr.*	564	Interest and Discount . *Dr.*	587
Rent, Rates, and Taxes	562	Bad Debts	362
Stock	8,968	Sundry Creditors	5,963
Salaries and Wages	1,100	Fixtures and Fittings	897
Travelling Expenses	130		
Expenses of Licences	58		

The Stock on hand at the end of the year is £12,896.

Make out in proper form Trading, Profit and Loss Account, and Balance Sheet.

28. The Stanley Main Coal Company entered into a contract with Messrs. Ricksmith, Pigg & Co., to supply 1,000 tons coal monthly, for a period of 12 months, at 7s. 6d. per ton, with 9d. per ton for wagon hire, and 2s. 6d. per ton carriage, with an allowance by the vendors of 6d. per ton for screening; payment to be made each month by the firm's acceptance at 2 months on receipt of invoice. Make the necessary entries in the subsidiary books of the Coal Company for the first three months' delivery, and post the same to the respective Ledger Accounts.

(*London Chamber of Commerce.*)

29. On 3rd January Q purchased from P goods to the value of £600 and settled the account by means of three Bills of Exchange for £200 each due respectively in two, three, and four months. A week later P discounted the first of the three with his bank, receiving £199 5s. 8d.; the others he held.

The first two bills were paid at maturity. The third Q was unable to meet, and it was retired by arrangement, Q paying £50 in cash and giving P a fresh bill for three months to cover the balance with interest at the rate of 5 per cent per annum.

P discounted this on 10th May for £150 5s. 9d.

Set out the entries recording the above in P's Ledger. (The Cash Book is not required.)

(*R.S.A.*)

30. On 1st January the A Company, Ltd., acquired a fifty years' lease of its business premises, paying therefor £10,000. It was decided to provide for depreciation by setting aside £90 per annum as a Sinking Fund, and on 31st Dec., the

amounts so set aside had (with interest) accumulated to £2,400. On 31st December, 20 years later, the Directors obtained from an insurance company a policy assuring them the payment of £10,000 at the end of thirty years, in consideration of an annual premium of £220, the first premium being paid upon that date; and having thus provided for the redemption of Capital they gave instructions that the £2,400 accumulated during the past twenty years should be stated in the Balance Sheet dated 31st December, as "Reserve Fund."

Do you consider this treatment correct? Give reasons for your answer.

(*Chartered Institute of Secretaries.*)

CHAPTER VII

CONSIGNMENTS, JOINT VENTURES, VOYAGE ACCOUNTS

CONSIGNMENTS OUTWARDS

Definition. An Outward Consignment is the dispatch of a quantity of goods from one place to another, usually to some country or place abroad, for the purpose of sale by an agent on commission.

Consignor. A consignor is a person who forwards the goods for sale.

Consignee. A consignee is the person to whom the goods are forwarded for sale.

Commission. This is a term used to denote the remuneration of the consignee for selling the goods.

Differences between a Consignment and a Sale. There are two principal differences between a Consignment and a Sale. When goods are *sold* to a person, the property in them passes to that person; when goods are *consigned* to a person the legal ownership of the goods remains in the consignor. Hence, the person to whom goods are sold is a *debtor*; but the person to whom goods are consigned is merely an *agent*. Again, a consignment is returnable if it cannot be marketed; but goods sold are not returnable, except for some special reason, such as on account of damage or being of the wrong kind.

Difference between a Consignment and Goods on Sale or Return. In the case of a consignment the person to whom the goods are sent is an *agent* of the sender; but in the latter case, the person to whom the goods are sent is merely an *optional purchaser*.

Special Consignment Books and Marks. When consignments are very numerous, a special "Consignment Day Book" and a separate "Consignment Ledger" are generally kept. The total of the Consignment Day Book is credited monthly to a "Goods on Consignment Account" in the General Ledger. In examination work a Journal entry is usually sufficient. Consignments are distinguished by the name of the consignee, or by the name of the place to which the goods have been consigned, or by a special letter or number, or by both; for example, "Consignment to A. Smith," or "Consignment to Calcutta," or "Consignment No. Ad 46."

Pro Forma Invoice. When goods are consigned, a *pro forma* invoice is forwarded with them giving particulars as to the nature of the goods, number, and/or quantity, weight, measurement, prices, marking, packing, etc. The goods are dealt with in the consignor's

books usually at cost price, but the invoice to the consignee is usually made out at a higher figure. If the consignment has been entered up in the consignor's books at figures in excess of cost (which would be irregular) credit will have been taken for profit before it has been realized. If, at balancing time, the consignment is still unsold, such profit must, of course, be transferred to a "Consignment Suspense Account."

Expenses on Consignment. In consigning goods abroad certain expenses will be incurred, namely, carriage or cartage to the dock, dock dues, freight, marine insurance, etc. All these expenses must be charged direct to the Consignment Account, from the Cash Book, if paid, but, if unpaid, by means of Journal entry, thus—

Consignment A/c	*Dr.*
To Railway Executive (Carriage)	*Cr.*
,, Shipping Company (Freight)	*Cr.*
,, Insurance Company (Insurance)	*Cr.*
,, Dock Company (Dock Dues)	*Cr.*

When the goods reach their destination there will be further disbursements, namely, dock dues, unloading and cartage, fire insurance, warehouse or storage rent, auction room expenses, brokers' fees, etc. These expenses will be defrayed by the consignee, and debited in his books to the personal account of the consignor. When settling with the consignor, the consignee will deduct all these charges, and also his selling commission on the *gross* amount of the sales, and remit only the balance, less, of course, any advance or previous payment on account.

Advance on Consignment. In some cases, it is usual for the consignee to remit a certain sum of money as an advance against the consignment. This is not a part payment, but merely an advance by way of security for the large amount of goods forwarded to the consignee. An advance should *not* be put to the credit of the Consignment Account, as it is not part of the proceeds of it. It should be posted to the credit of the consignee's personal account. It thus figures in the books as a liability. This is the correct position, for if the consignee does not sell the goods, the money will have to be repaid to him. On the Balance Sheet, the advance is shown sometimes as a liability, and sometimes as a deduction from the consignment on the assets side, the reason for the latter being that, in the event of the consignee selling the goods, the advance will count as part payment.

Bills Drawn against Consignments. In some cases it is usual for the consignor to draw a bill on the consignee for a large portion of the value of the consignment, and to discount or sell such bill, so that he may not be prevented from having the use of the money until such time as the goods are actually sold and paid for. The

bill is known as a **documentary bill,** and the procedure in connexion therewith has been fully explained under Foreign Bills in Chapter VI. The discount or exchange charged by the bankers for cashing the bill may be dealt with in two different ways. If regarded as an ordinary financial expense, it is charged to Profit and Loss Account; if looked upon as a special expense in connexion with the consignment, it is debited to the particular Consignment Account.

Del Credere Commission. To prevent any losses by Bad Debts falling upon the consignor, the latter sometimes arranges to pay the agent an extra commission, called a del credere (dĕl krĕd′-ĕr-e) commission. In return for this, the agent guarantees the proceeds of the consignment after the goods are sold, that is to say, the agent will pay the consignor whether he himself receives payment or not.

Account Sales. This is a document showing the gross and net proceeds of the consignment sold by the consignee for the account of the consignor, and detailing the various expenses and charges in connexion therewith. The following is an example—

Account Sales of 30 cases of Fancy Goods ex s.s. *Stormy Petrel*, sold by Trumper & Co., of Wellington, New Zealand, for the account and risk of Messrs. Williams & Sons, London.

					£	£
W. & S.L. / 1–15	15 cases of Fancy Goods . . .				12	180
W. & S.L. / 16–30	15 cases ,, ,, . . .				15	225
						405
	Less Charges and Expenses—	£	s.	d.		
	Cartage . . .	4	10	–		
	Storage . . .	6	15	–		
	Insurance . . .	8	10	–		
	Commission 5%, £405 .	20	5	–		40
						365
	Less Advance					200
						£165
	E. & O.E. Sight Draft for £165 herewith. Trumper & Co., Wellington. 12th March, 19..					

In some cases, the consignee pays the outward freight and insurance, and these two items also then appear on the Account Sales. On receipt of the latter document, the consignor will make a Journal entry in his books debiting the consignee (who has now become his debtor) and crediting the Consignment Account with the *net* proceeds. The procedure detailed in 4 (*a*) and 4 (*b*) on the next page is alternative to the above, but gives the same result.

Account Sales in Currency. Where the Account Sales is rendered in currency, it will require to be converted into sterling before the figures can be dealt with. The rate for conversion will be the rate ruling on the day when the Account Sales is received. Should, however, payment be made at a later date, and a different rate be current when the money is actually received, a Journal entry must be made transferring any profit or loss on exchange either to a "Difference in Exchange Account," or, if preferred, back to the Consignment Account, both methods being in vogue.

Balancing the Consignment Account. When the goods have been fully sold and the Account Sales duly entered up, the Consignment Account is balanced and the balance transferred to Profit and Loss Account, a debit balance denoting a loss and a credit balance representing a gain. When the goods are only partly sold, then the unsold stock, *plus* a proportionate amount of the freight, insurance, and other non-recurring charges, must be credited and carried forward in the Consignment Account in order to find the profit or loss on the part actually sold. The commission is a recurring charge and must not, therefore, be so apportioned. This unsold stock, plus charges, will be shown as an asset on the Balance Sheet. If the consignment expenses were not apportioned, the freight and insurance of the *whole* of the goods would be charged against the sale of *part* of them. If, at balancing time, no part of the consignment is sold, then the amount of the Consignment Account, i.e. cost of the goods *plus* expenses, will be shown on the Balance Sheet as an asset under the heading of "Goods" or "Stock on Consignment."

NOTE. Great care must be taken to see that the remaining goods are still worth the cost price. It by no means follows that if half of a consignment of £500 (£250) has been sold for £400 that there is a profit of £150. It may be that the consignment was a pure speculation and that the remaining goods will almost have to be given away.

Account Current between Consignor and Consignee. Sometimes, interest is brought into account with respect to the transactions connected with the consignment, thus introducing an Account Current between the two parties. The consignee will charge interest on the various sums of money paid out, on advances and on remittances on account, and will likewise allow interest on

the proceeds of the consignment, the interest running in each case up to the final date of settlement.

Formula for Consignment Outwards—

1. *Debit* Consignment Account, and *credit* a Goods on Consignment Account, with the cost price of the goods by means of Journal entry.

2. Debit Consignment Account with the freight, insurance, and other charges paid or payable by the consignor, and credit Cash, if paid, or a personal account if unpaid.

3. Debit Cash or Bills Receivable Account with the amount of any advance received, and credit personal account of consignee.

4. When the Account Sales is received—

(*a*) Debit the consignee's personal account and credit Consignment Account with the gross proceeds.

(*b*) Debit Consignment Account and credit consignee's personal account with the latter's expenses and commission.

5. Balance the Consignment Account and transfer the balance to Profit and Loss Account. Any stock unsold must be credited before balancing and brought down to the debit side.

6. Debit Cash or Bills Receivable Account with any cash or bill received in settlement, and credit consignee.

7. Close Goods on Consignment Account by transfer to Trading Account.

Example. Consigned goods value £825 to R. Lake, of Melbourne. Paid freight, etc., £65 and insurance, £40. Drew on R. Lake at 3 m/d for £300 as an advance against consignment, and discounted the bill for £296. Received Account Sales from R. Lake showing that part of the goods had realized gross £835, and that his expenses and commission amounted to £87. The stock unsold was valued at cost price, at £275. Received draft at two months from R. Lake for amount due. Make the necessary entries in the Consignor's Journal, Cash Book, Ledger, etc., to record the above transactions.

JOURNAL

		Dr.	*Cr.*
		£	£
	Consignment A/c	825	
	To Goods on Consignment . . .		825
	Value of goods forwarded to R. Lake, of Melbourne.		
	R. Lake	835	
	To Consignment A/c		835
	Gross proceeds as per Account Sales.		
	Consignment A/c	87	
	To R. Lake		87
	Expenses and commission as per Account Sales.		

CASH BOOK

Dr.	£		Cr. £
To Bills Receivable . .	300	By Consignment A/c—	
		Freight . . .	65
		Insurance . . .	40
		Discount on Bill . .	4

BILLS RECEIVABLE BOOK

Date	No. of Bill	From Whom Received	Led. fol.	Discount	Amount of Bill	Date of Bill	Term	Due Date
					£			
		R. Lake .			300		3 mos.	
		R. Lake .			448		2 mos.	

LEDGER

CONSIGNMENT TO R. LAKE, MELBOURNE

Dr.	£		Cr. £
To Goods	825	By R. Lake . . .	835
,, Cash (freight) . .	65	,, Stock . . £275 } c/d	310
,, ,, (insurance) .	40	,, Expenses $\frac{275}{825}$ of £105 = 35 }	
,, ,, (discount on bill) .	4		
,, R. Lake (expenses and commission) . .	87		
,, Profit and Loss A/c (profit)	124		
	£1,145		£1,145
To Balance b/d . . .	310		

GOODS ON CONSIGNMENT

Dr.	£		Cr. £
To Trading A/c .	825	By Consignment A/c .	825

R. LAKE

Dr.	£		Cr. £
To Consignment A/c .	835	By Bills Receivable .	300
		,, Consignment A/c .	87
		,, Bills Receivable .	448
	£835		£835

Dr.		TRADING ACCOUNT	*Cr.*
			£
		By Sales . . .	
		„ Goods on Consignment . .	825

Dr.		PROFIT AND LOSS ACCOUNT	*Cr.*
			£
		By Trading A/c (gross profit) . .	
		„ Consignment A/c (net profit) .	124

In the illustration just given the stock has been entered at the figure given in the example and the amount of the expenses to be carried forward calculated on the basis of the proportion of the closing stock stated to the total value of the goods consigned. As an alternative to this the *quantity* of goods shipped and remaining unsold is given, or possibly, in examination questions, the amount or number of units unsold is not stated. When this is so, a memorandum column must be included in the Consignment Account, so that it can be seen at a glance how many units have not been sold in order to calculate the stock and expenses to carry forward.

A further problem arises when the question introduces the loss or damage of stock.

If the loss is not insured against, it should be dealt with by crediting Consignment Account and debiting Loss of Goods on Consignment Account. If this is not done, the final effect on the Profit and Loss Account must be the same, but the Consignment Account will give an inaccurate result especially for comparison purposes.

Where the loss or damage is covered by insurance the amount will be credited to Consignment Account and debited to Insurance Account. In cases of this kind care must be exercised in getting the correct proportion of the expenses to be carried forward when there is still some stock on hand.

The value of the closing stock is made up of two parts as follows—

1. A proportion of the value of the whole consignment, as in the previous example, plus expenses incurred on all the goods.

2. A proportion of the expenses applicable after the loss.

The first will be arrived at on the basis of the remaining goods divided by the total consigned, and the second on the basis of the remainder divided by the total goods actually saved and saleable.

This means that the non-recurring expenses will have to be apportioned.

QUESTIONS

1. What is meant by an Outwards Consignment?
2. Explain the following terms: Consignor, consignee, commission.
3. What is the difference between a Consignment and a Sale of Goods?
4. What is the difference between a Consignment and Goods on Sale or Return?
5. How are consignments distinguished when they are very numerous?
6. Explain the use of a *pro forma* invoice in connexion with consignments.
7. What are the usual expenses in connexion with a Consignment Outwards, and how are they treated (*a*) when paid, (*b*) when not paid?
8. What is meant by an Advance on Consignment, and how should it be treated in the books?
9. Explain the terms, "bills drawn against consignments," "del credere commission."
10. What is an Account Sales, and what entries are necessary in the books when one is received? What further steps will be necessary if the Account Sales is rendered in currency?
11. How and when is a Consignment Account balanced, and when does it appear on the Balance Sheet?

CONSIGNMENTS INWARDS

Definition. An Inwards Consignment is the receipt of a quantity of goods by a person in this country from a person in some country or place abroad, for the purpose of sale. In fact, an Inwards Consignment is simply the reverse of the Outwards Consignment, that is, as it appears in the books of the consignee.

Difference between an Inwards Consignment and a Purchase. When we buy goods from a person, the property in the goods passes to us; but when we receive a consignment, the ownership of the goods does not pass to us, but remains vested in the consignor. In the first case, the person is our *creditor*, and we are his *debtor*; in the second case, he is the principal, and we are his *agent*, becoming the debtor only as the goods are sold. An inwards consignment is returnable if it cannot be sold; a purchase of goods is not.

Difference between an Inwards Consignment and an Ordinary Sale of Goods on Commission. With an inwards consignment we receive actual possession of the goods, but in the other case we merely sell from samples. As regards the former, we therefore record the sale in our books, and open a Ledger Account for the person to whom it is sold. In the latter case, when a sale has been effected, we pass the order on to the principal, booking up only our expenses and commission.

Advance on an Inwards Consignment. On receiving possession of the goods, we may forward the consignor a sum of

money, or allow him to draw on us, as an advance against the consignment. The advance will be debited to the personal account of the consignor, and will appear in our books as an asset, being an amount repayable to us in the event of our not being able to dispose of the goods.

Two Methods of Dealing with an Inwards Consignment. The first method is to make no entry in the financial books when a consignment is received. Not having contracted a liability, we should not make our books appear as if we had. The receipt of the goods is, therefore, recorded merely in a memorandum "Consignment Inwards" or "Consignment Stock" Book. All expenses paid out in connexion with the goods, such as dock dues, customs duties, unloading, fire insurance, cartage, storage, warehouse rent, are debited to the personal account of the consignor. The sales of the goods, either for cash or on credit, are credited to the consignor's account, which is also debited with any advance and with the commission for selling the goods. The balance of the account shows the final amount due to the consignor, which is settled either by a sight draft or a bill. It is from this account that the Account Sales is sometimes prepared.

The second method is, on receipt of the goods, to open a Consignment Inwards Account and debit it with the invoice value of the goods, at the same time crediting the consignor's account with a like amount. Inasmuch as the relationship of debtor and creditor does not as yet exist between the parties to the consignment, this procedure is undoubtedly a direct violation of principle; yet it is justified by some on the ground that it is felt necessary to have some record of the consignment in the financial books, a mere memorandum of it being deemed insufficient and unsatisfactory. The Consignment Inwards Account is debited with all expenses and with the selling commission, and credited with all sales of the goods. The balance of this account shows the profit made on the consignment, and is transferred to the personal account of the consignor. This latter account is debited with any advance, and is closed by being debited with the final draft or bill in full settlement.

Formula for an Inwards Consignment (Principal Method)—

1. On receipt of the goods, no entry.

2. On payment of the various expenses connected with the consignment, *credit* Cash, *debit* Consignor.

3. On sending an advance, *debit* Consignor, *credit* Cash or Bill Payable as the case may be.

4. On selling the goods pertaining to the consignment—

(*a*) For cash, *debit* Cash, *credit* Consignor.

(*b*) On credit, *debit* Person to whom goods sold, *credit* Consignor, by means of Journal entry.

5. *Debit* Consignor, *credit* Commission Account with the amount of the commission due, by means of Journal entry.

6. Close Consignor's Account by *debiting* it with the final bill or draft in settlement.

Formula for an Inwards Consignment (Alternative Method)

1. On receipt of the goods, *debit* Consignment Inwards Account, *credit* Consignor, by means of Journal entry.

2. On payment of the various expenses connected with the consignment, *credit* Cash, *debit* Consignment Inwards Account.

3. On sending an advance, *debit* Consignor, *credit* Cash or Bill Payable as the case may be.

4. On selling the goods pertaining to the consignment—

(*a*) For cash, *debit* Cash, *credit* Consignment Inwards Account.

(*b*) On credit, *debit* Person to whom goods sold, *credit* Consignment Inwards Account, by means of Journal entry.

5. *Debit* Consignment Inwards Account with the selling commission as arranged, *credit* Commission Account, by means of Journal entry.

6. Balance the Consignment Inwards Account, and transfer balance to Consignor's personal account. Any unsold stock must be entered on the *credit* side, and brought down as a *debit* balance after ruling off the account.

7. Close Consignor's Account by *debiting* it with the final bill or draft in settlement. The value of any unsold stock must be entered on the *debit* side, and brought down as a *credit* balance after ruling off the account.

NOTE. One great objection to this alternative method is that the full amount to the credit of the consignor might get paid to him though the goods were not realized.

Example. Received Consignment of Goods from J. Rowell valued at £760. Terms: Agent's Commission, 5 per cent on all Sales; Del credere Commission, 2½ per cent on credit transactions. Paid Customs Duties, £23 14s. 9d.; Landing Charges and Carriage, £8 14s. 9d.; Fire Insurance, £9 10s. Sent J. Rowell an Advance of £225. Sold part of Rowell's consignment to H. Thompson for £420, part for Cash £475, and took part value £200 into stock for our own use. Paid Brokerage, 1½ per cent, £12. Sent J. Rowell an Account Sales, and sight draft for balance due. The stock remaining unsold was valued at £200. Make the necessary subsidiary book entries, and show the Ledger Accounts.

1. Principal Method—

JOURNAL

		Dr. £ s. d.	Cr. £ s. d.
	H. Thompson	420 – –	
	To J. Rowell		420 – –
	Sale of part of the Inwards Consignment.		
	J. Rowell	65 5 –	
	To Commission		65 5 –
	5% Agent's Commission, £1,095 = £54 15s.		
	2½% del credere Commission, £420 = £10 10s.		

PURCHASES BOOK

		£ s. d.	£ s. d.
	J. Rowell		
	Goods from Consignment . . .		200 – –

CASH BOOK

Dr.	£ s. d.	Cr.	£ s. d.
To J. Rowell . . .	475 – –	By J. Rowell—	
		Customs Duties .	23 14 9
		Landing Charges, etc. . . .	8 14 9
		Fire Insurance .	9 10 –
		,, J. Rowell (advance) .	225 – –
		,, ,, (brokerage)	12 – –
		,, ,, . .	750 15 6

LEDGER

J. ROWELL

Dr.	£ s. d.	Cr.	£ s. d.
To Cash—		By Cash	475 – –
,, Customs Duties .	23 14 9	,, Purchases . .	200 – –
,, Landing Charges	8 14 9	,, H. Thompson .	420 – –
,, Fire Insurance .	9 10 –		
,, Cash (Advance) .	225 – –		
,, ,, (Brokerage)	12 – –		
,, Commission . .	65 5 –		
,, Cash	750 15 6		
	£1,095 – –		£1,095 – –

2. Alternative Method—

JOURNAL

	Dr. £ s. d.	Cr. £ s. d.
Consignment Inwards A/c	760 – –	
To J. Rowell		760 – –
Receipt of goods on consignment.		
H. Thompson	420 – –	
To Consignment Inwards A/c . .		420 – –
Sale of part of the consignment.		
Consignment Inwards A/c	65 5 –	
To Commission		65 5 –
5% Agent's Commission, £1,095 = £54 15s.		
2½% del credere Commission, £420 = £10 10s.		

Dr. CASH BOOK *Cr.*

	£ s. d.		£ s. d.
To Consignment Inwards A/c . . .	475 – –	By Consignment Inwards A/c—	
		Customs Duties .	23 14 9
		Landing & Carriage	8 14 9
		Fire Insurance .	9 10 –
		,, J. Rowell . . .	225 – –
		,, Consignment Inwards A/c—	
		Brokerage . .	12 – –
		,, J. Rowell . . .	750 15 6

LEDGER

Dr. CONSIGNMENTS INWARDS *Cr.*

	£ s. d.		£ s. d.
To J. Rowell . . .	760 – –	By Cash	475 – –
,, Cash (Customs Duties) .	23 14 9	,, Purchases . . .	200 – –
,, ,, (Landing and Cartage)	8 14 9	,, H. Thompson . .	420 – –
,, ,, (Fire Insurance) .	9 10 –	,, Stock unsold c/d .	200 – –
,, Commission . .	65 5 –		
,, Cash (Brokerage) .	12 – –		
,, Balance transferred to J. Rowell's A/c	415 15 6		
	£1,295 – –		£1,295 – –
To Balance b/d . .	200 – –		

Dr.	J. ROWELL		Cr.
	£ s. d.		£ s. d.
To Cash . . .	225 – –	By Consignment Inwards A/c . .	760 – –
„ „ . . .	750 15 6	„ Transfer from Consignment Inwards A/c . . .	415 15 6
„ Balance (Stock) c/d	200 – –		
	£1,175 15 6		£1,175 15 6
		By Balance b/d . .	200 – –

The £200 worth taken into stock for own use could either be journalized or entered in the Purchases Book as before, except that the amount would be credited to the Consignment Inwards Account, and not to J. Rowell's Account.

QUESTIONS

1. Define a Consignment Inwards. How does it differ from a Consignment Outwards?
2. Explain the difference between a Consignment Inwards and (*a*) a Purchase of goods, (*b*) an ordinary Sale of Goods on commission.
3. What two methods are there of treating an Inwards Consignment? Outline them briefly.
4. Supposing part of an Inwards Consignment is taken by the consignee for his own use, how should it be dealt with in his books?
5. How does the consignee recoup himself for his expenses connected with the consignment, and how does he obtain his commission?
6. When a consignee renders an Account Sales, what entries will be necessary in his books? How is an Advance on Consignment treated in his books?

JOINT VENTURES

Definition. A Joint Venture is a partnership without the use of a firm name, limited to a particular speculation in which the two or more persons concerned agree to contribute certain specified amounts of capital and to share profits or losses in the same manner or in any other equitable proportion.

Nature of Joint Ventures. A Joint Venture may consist of a joint consignment of goods, an underwriting transaction, a speculation in shares, or any similar form of enterprise.

Advantages of a Joint Venture. One party may be able to buy at much lower prices and on far better terms than others. Another party may be in a position to sell at exceptionally good prices. A third party, who may not be favourably circumstanced

for either buying or selling, may, however, have special financial resources. Thus, the combined services of the parties in a common venture may make it a highly remunerative one.

The Methods of Procedure. It is usual for one of the parties to be appointed to manage the joint venture, that is, to do all the buying and selling and to look after it. For these services he obtains an extra remuneration by being allowed to charge against the Joint Account a commission of so much per cent on the amount of the sales, and, in some cases, on the amount of the purchases, sales, and expenses. Under these circumstances a Joint Account is opened and debited with the cost of the goods. Each of the other parties then remits his proportion of the cost, which is placed to the credit of their personal accounts, as this amount is payable back again to them plus their share of profit, or less their share of loss, as the case may be. The Joint Account is also debited with all expenses, charges, and commission; it is likewise credited with all sales whether for cash or on credit. The balance of the account then represents profit or loss to be shared in the agreed proportions. When the goods have been sold and paid for, then a remittance to each of the parties for the amount due to him will close the speculation.

In other cases, each of the parties concerned opens in his books merely an account for the Joint Venture, to record such of the transactions as he is directly concerned with. A general statement, prepared from information supplied by the parties, is rendered showing the profit on the joint speculation. Each party then debits the Joint Account and credits his Profit and Loss Account with his portion of such profit. There will then remain in one party's books a debit balance, and in the other party's books a credit balance, of the same amount. Payment of this balance by one party to the other will finally close the venture.

Sometimes, a separate joint banking account is opened, and a separate set of books kept for the venture. The transactions are then recorded like ordinary partnership transactions; and, in such cases, interest on capital is generally charged, particularly when the parties interested have advanced unequal amounts.

Example 1. Bought Goods from Martin & Son, £720, and took from stock Goods value £220, for a joint speculation with S. Singleton, profits divisible equally. Received S. Singleton's share of speculation. Paid Charges and Expenses, £71. Sold Joint Account goods for Cash, £1,220. Sent sight draft to Martin & Son. Charged as manager, 5 per cent Commission on sales. Rendered statement to Singleton with cheque for the amount due to him. Write up the subsidiary books and show the Ledger Accounts.

JOURNAL

	Dr.	Cr.
	£	£
Joint A/c	720	
To Martin & Son		720
For goods bought for a joint speculation with S. Singleton.		
Joint A/c	220	
To Goods on Joint A/c		220
For goods taken from stock for a joint speculation with S. Singleton.		
Joint A/c	61	
To Commission		61
5% on sale of goods, £1,220, for the joint speculation with S. Singleton.		

Dr. CASH BOOK Cr.

	£		£
To S. Singleton . . .	470	By Joint A/c . . .	71
,, Joint A/c . . .	1,220	,, Martin & Son . .	720
		,, S. Singleton . . .	544

LEDGER

Dr. MARTIN & SON Cr.

	£		£
To Cash . . .	720	By Joint A/c . .	720

Dr. JOINT ACCOUNT Cr.

	£		£
To Martin & Son .	720	By Cash . . .	1,220
,, Goods on Joint A/c	220		
,, Cash (Expenses) .	71		
,, Commission .	61		
,, Balance (profit)—			
S. Singleton ½ .	74		
Profit and Loss ½	74		
	£1,220		£1,220

Dr. S. SINGLETON *Cr.*

		£			£
	To Cash	544		By Cash	470
				„ Joint A/c (½ profit)	74
		£544			£544

Dr. GOODS ON JOINT ACCOUNT *Cr.*

		£			£
	To Trading A/c	220		By Joint A/c	220

Dr. COMMISSION *Cr.*

		£			£
	To Profit and Loss	61		By Joint A/c	61

Dr. TRADING ACCOUNT *Cr.*

					£
				By Goods on Joint A/c	220

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

					£
				By Joint A/c	74
				„ Commission	61

Example 2. On 1st Feb., L. Wilson bought Goods value £620 and consigned them to D. Bowden as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £37 10s. 6d.; Insurance, £13 13s., and drew on Bowden at two months for £310 on account, discounting the bill on 4th Feb., for £307 8s. 4d. On receipt of the Goods on 1st March, Bowden paid Dock Dues and Cartage, £16 8s. 4d., and Government Duty, Insurance, etc., £28 17s. 6d. On 31st July, Wilson received an Account Sales showing that on 30th June the Goods had realized gross £955 12s. 6d., and that Bowden's disbursements made on the same date were Storage £25, Sundries, Brokerage, and Expenses of Sale, £62. Bowden also enclosed a sight draft for the amount due at 31st July. Prepare a general statement showing the result of the venture, and write up the accounts in Wilson's and Bowden's Ledgers respectively. Interest is to be brought into account at the rate of 5 per cent per annum, and may be calculated by months instead of days.

Example 2.

Dr. JOINT CONSIGNMENT *Cr.*

Date	Particulars	Mths.	Interest	Amount	Date	Particulars	Mths.	Interest	Amount
19..			£ s. d.	£ s. d.	19..			£ s. d.	£ s. d.
Feb. 1	To Goods	6	15 10 –	620 – –	June 30	By Gross Proceeds of Sale of Goods . . .	1	3 19 8	955 12 6
" 1	" Carriage and Freight .	6	19 –	37 10 6	July 31	" Interest . . .			3 19 8
" 1	" Insurance, etc. . .	6	7 –	13 13 –					
" 4	" Discount on Bill . .	6	1 6	2 11 8					
Mar. 1	" Dock Dues and Cartage .	5	6 8	16 8 4					
" 1	" Govt. Duty & Insurance .	5	12 1	28 17 6					
June 30	" Storage . . .	1	2 1	25 – –					
" 30	" Sundries, Brokerage, & Expenses of Sale .	1	5 2	62 – –					
July 31	" Interest . . .			18 3 6					
" 31	" Balance (Profit)— L. Wilson ½ £67 13 10; D. Bowden ½ 67 13 10			135 7 8					
			£	959 12 2				£	959 12 2

Note 1. Interest at 5 per cent per annum for so many months is found by the following rule: "Call the pounds pence, multiply by the number of months, and the result will be the required Interest." Thus, 620d. = £2 11s. 8d.; £2 11s. 8d. × 6 = £15 10s.

Note 2. Alternatively, as interest is being brought into account on amounts advanced and received, the interest on the bill discounted would have to be borne by Wilson personally.

In Wilson's Ledger.

Dr. JOINT CONSIGNMENT WITH D. BOWDEN *Cr.*

Date	Particulars	Mths.	Interest	Amount	Date	Particulars	Mths.	Interest	Amount
19..			£ s. d.	£ s. d.	19..			£ s. d.	£ s. d.
Feb. 1	To Goods	6	15 10 –	620 – –	Feb. 1	By Bill Receivable at 2 m/d	4	5 3 4	310 – –
,, 1	,, Carriage and Freight .	6	19 –	37 10 6	July 31	,, Interest . . .			5 3 4
,, 1	,, Insurance . . .	6	7 –	13 13 –	,, 31	,, Balance (due from Bowden) c/d . . .			443 3 2
,, 4	,, Discount on Bill . .	6	1 6	2 11 8					
July 31	,, Interest . . .			16 17 6					
,, 31	,, Profit and Loss A/c (share of profit) . .			67 13 10					
			£	758 6 6				£	758 6 6
July 31	To Balance (due from Bowden) b/d . . .			443 3 2	July 31	By Cash			443 3 2

In Bowden's Ledger.

Dr. JOINT CONSIGNMENT WITH L. WILSON *Cr.*

Date	Particulars	Mths.	Interest	Amount	Date	Particulars	Mths.	Interest	Amount
19..			£ s. d.	£ s. d.	19..			£ s. d.	£ s. d.
Feb. 1	To Bill Payable, due 4th Apr.	4	5 3 4	310 – –	June 30	By Gross Proceeds of Sale of Goods . . .	1	3 19 8	955 12 6
Mar. 1	„ Dock Dues and Cartage	5	6 8	16 8 4	July 31	„ Interest . . .			3 19 8
„ 1	„ Govt. Duty & Insurance	5	12 1	28 17 6					
June 30	„ Storage . . .	1	2 1	25 – –					
„ 30	„ Sundries, Brokerage, and Expenses of Sale .	1	5 2	62 – –					
July 31	„ Interest . . .			6 9 4					
„ 31	„ Profit and Loss A/c (share of profit) . . .			67 13 10					
„ 31	„ Balance (due to Wilson) c/d			443 3 2					
			£	959 12 2				£	959 12 2
July 31	To Cash			443 3 2	July 31	By Balance (due to Wilson) b/d			443 3 2

Example 3. B. Black and W. White were partners in the following scheme, Black to take five-ninths and White four-ninths of the profits. They agreed to guarantee the subscription at par of 85,000 shares of £1 each in a company, and to pay all expenses up to allotment, in consideration of the company issuing to them 11,500 other shares fully paid. Black provided cash for the following expenses: Registration and Fees, £114; Advertising, £2,175; Printing, Stationery, and Prospectuses, £225. White supplied cash for remainder: Rent of Office, £40; Secretary, etc., £95; Petty Cash and Sundries, £25; Stamps, £78; Solicitor's Charges, £240. Applications fell short of the 85,000 shares by 3,500 shares, and by arrangement White found the cash in full for that number on the Joint Account. The company handed Black and White the 11,500 shares. Black and White then sold all their shares at 16s. 3d. each, less brokerage 3d. per share. White received the net proceeds of 5,000 shares, and Black the net proceeds of the remainder. Make out the Joint Account, and also the separate accounts of the partners, showing their respective shares of the profit, and the amount due from one to the other in settlement.

Dr. JOINT VENTURE *Cr.*

		£			£
	To Black—			By Black—	
	Registration and Fees	114		Proceeds of Sale of 10,000 Shares @ 16s. net	8,000
	Advertising	2,175		,, White—	
	Printing and Prospectuses	225		Proceeds of Sale of 5,000 Shares @ 16s. net	4,000
	,, White—				
	Rent of Office	40			
	Secretary, etc.	95			
	Petty Cash and Sundries	25			
	Stamps	78			
	Solicitor's Charges	240			
	,, White—Cash for shares not taken up	3,500			
	,, Balance (profit)—				
	Black $\frac{5}{9}$ths	3,060			
	White $\frac{4}{9}$ths	2,448			
		£12,000			£12,000

Dr B. BLACK Cr.

		£		£
	To Joint A/c— Proceeds of Sale of 10,000 Shares @ 16s. net	8,000	By Joint A/c— Registration and Fees	114
			Advertising	2,175
			Printing and Prospectuses	225
			„ Joint A/c— $\frac{5}{9}$ths of Profit	3,060
			„ Balance (due to W. White) c/d	2,426
		£8,000		£8,000
	To Balance (due to White) b/d	2,426		

Dr. W. WHITE Cr.

		£		£
	To Joint A/c— Proceeds of Sale of 5,000 Shares @ 16s. net	4,000	By Joint A/c— Rent of Office	40
	„ Balance (due from B. Black) c/d	2,426	Secretary, etc.	95
			Petty Cash and Sundries	25
			Stamps	78
			Solicitor's Charges	240
			„ Joint A/c— Cash for Shares not taken up	3,500
			„ Joint A/c—$\frac{4}{9}$ths of Profit	2,448
		£6,426		£6,426
			By Balance (due from B. Black) b/d	2,426

VOYAGE ACCOUNTS

Definition. A Voyage Account is really a Revenue Account, or Profit and Loss Account, relating to the income earned, and the expenditure incurred, by a vessel during a particular voyage. Generally speaking, the voyages are numbered; and a separate account is kept of all expenses and charges pertaining to each voyage, and of the freight earned by each.

NOTE. A **Voyage** includes both the outward and return journeys.

Property in British Ships. The property in a British ship is divided into sixty-four equal parts or shares, and may be held only by British Nationals.

Example. The s.s. *Queenie* started on 1st April on a voyage from *A* to *I* and then to London. Freights were earned as follows: With timber to *B*, £2,946 10s. 8d.; with coal to *C*, £8,655 9s. 8d.; with sugar to *D*, £3,198 16s. 5d.; with cotton to *E*, £2,783 13s. 10d. The *Queenie* reached London on 31st October. The port charges and disbursements and sundry expenses were: At *A*, £856 3s. 6d.; at *B* outwards, £1,316 10s. 8d.; at *C*, £516 14s. 4d.; at *D*, £638 18s. 9d.; at *C* return, £61 10s. 6d.; at *E*, £10 15s. 7d.; at *D* return, £1,108 17s. 3d.; at *F*, £49 19s. 6d.; at *G*, £469 3s. 11d.; at *H*, £306 16s. 6d.; at *I*, £56 11s. 4d.; at London, £786 10s. 5d. The managers' commission amounted to £1,234 5s. 6d.

During the voyage the Wages amounted to £1,485 10s. 2d. and the Coal bill to £2,365 15s. 7d. The premiums for general insurance were at the rate of £2,520 per annum, and for leaving *H* late in the season an extra insurance of £372 10s. 5d. was charged. The insurance on freights, etc. was £326 19s. 3d. for the whole voyage.

A balance of £225 10s. 4d. profit was brought forward from the previous voyage and a sum of £187 17s. 7d. (representing unused stores and provisions) is to be carried forward to the next voyage.

Make up the Voyage Account, and show the amount of dividend received by the owners.

VOYAGE ACCOUNT

Dr. FROM 1ST APRIL TO 31ST OCTOBER *Cr.*

	£	s.	d.		£	s.	d.
To Port Charges and Disbursements—				By Freights Earned—			
A	856	3	6	Timber to B	2,946	10	8
B outwards	1,316	10	8	Coal to C	8,655	9	8
C	516	14	4	Sugar to D	3,198	16	5
D	638	18	9	Cotton to E	2,783	13	10
C return	61	10	6	,, Stock of Unused Stores, Provisions, etc.	187	17	7
E	10	15	7				
D return	1,108	17	3				
F	49	19	6				
G	469	3	11				
H	306	16	6				
I	56	11	4				
London	786	10	5				
,, Wages	1,485	10	2				
,, Coal	2,365	15	7				
,, General Insurances 7 month ($\frac{7}{12}$ of £2,520)	1,470	–	–				
,, Extra Insurance	372	10	5				
,, Insurance on Freights, etc.	326	19	3				
,, Managers' Commission	1,234	5	6				
,, Profit on Voyage c/d	4,338	15	–				
	£17,772	8	2		£17,772	8	2
To Dividend to Owners, £71 6s. 4d. per share	4,564	5	4	By Profit b/d	4,338	15	–
				,, Balance b/f	225	10	4
	£4,564	5	4		£4,564	5	4

QUESTIONS

1. Define a "Joint Venture." What does it consist of?
2. What advantages are there in a joint venture over a speculation on one's own account?
3. What methods of procedure are there in dealing with joint ventures from a book-keeping point of view? Outline briefly the most usual one.
4. When goods are taken from one's own stock for the purpose of a joint adventure with others, how should they be dealt with in the books?
5. When different persons enter into a joint speculation, and each one takes some part in the transactions connected with it, how is the profit of the venture ascertained, and how is a final settlement between the parties effected?

EXERCISE VII

1. Richard Random and Sons shipped goods to Paul Gold, their agent at Capetown, on 1st September, and sent therewith a *pro forma* invoice for £578 (goods £500, freight £60, and insurance £18). On 28th October, Paul Gold sent home an Account Sales, from which it appeared that a portion of the goods had realized £460; and, deducting expenses £10 and commission £25, he enclosed a draft at three months for the balance. The stock remaining unsold amounted, at invoice prices plus expenses, to £280. On 2nd November, he sent home another Account Sales, which showed that the balance of the consignment had realized £320; which, less £8 expenses and £10 commission he remitted by a three months' draft.

Show how the above transactions should appear in the books of Richard Random and Sons. (*R.S.A.*)

2. What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"?

On 15th October, Delmaine Bros., London, shipped to Donnison & Sons, Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10s. per case.

The London payments in connexion with this consignment were: Insurance, £10 12s.; freight, £54 12s.; sundry charges, £3 15s.

The payments made by Donnison & Sons, in South Africa, were: Storage, £16 12s.; Landing charges, £6 10s.; Insurance, £2 11s.

On 15th December, Donnison & Sons sold 30 cases of goods at £45 per case; on 17th December, 25 cases at £50 per case; and on 19th December, the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons of 2 per cent on all sales plus 1½ per cent del credere commission.

On 1st November, Delmaine Bros. drew a Bill on Donnison & Sons for £1,000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Bros.

(*London Chamber of Commerce.*)

3. J. Moss & Co., London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hong Kong, on which they pay freight, insurance, and charges £55, drawing on him at 90 days for £1,300. They discount the bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less Agent's Commission, etc., £71, and a draft on the Bank of Hong Kong for the balance.

Record the above transactions in the books of J. Moss & Co.

(*London Chamber of Commerce.*)

4. T. Tohm, of Norway, and F. Friedley, of England, engaged in a joint speculation in timber. On 15th January Tohm contributed £450 and Friedley £550, which amounts were paid into a joint banking account. The following were the transactions—

Jan. 20. Bought cargo from A. Russphy, £724, less 5 per cent discount, and accepted his draft at 3 m/d for the net amount.
„ 23. Paid expenses of loading, £36 15s. 6d.
„ 31. Paid freight to London, £123 14s. 5d.
Feb. 21. Sold Greener & Co. logs £179 12s. 3d., and received cash less 2½ per cent discount.
„ 26. Bought from A. Helfsky, for cash, cargo of timber, net, £1,027.
Mar. 25. Paid Shipping charges and freight, £225 10s. 11d.
„ 27. Sold F. Turner deals, net, £420, and received his acceptance at 2 m/d.
April 15. Sold L. Loti timber bought from A. Russphy, £1,472 10s. 6d., and received his acceptance at 1 m/d.

The speculation was closed, and the stock of timber valued at £356 taken over by Friedley at the agreed figure of £356 less 10 per cent. Adjust the accounts between the partners as at 31st May, allowing interest on capital at the rate of 5 per cent per annum, and dividing profits or losses in proportion to capitals.

5. On 1st July, P. Potter, a merchant trading in Edinburgh, consigned to his New York agent, K. Kettlewell, 1,150 tons of Iron, invoiced *pro forma* at 52s. 6d. per ton. He paid Freight and other charges amounting to £175 15s. 9d. On 1st September he received an Account Sales showing that 222 tons had been sold at $15, 300 tons at $14.50, 176 tons at $14.25, and the balance at $14.75. K. Kettlewell deducted his Commission of 3 per cent, and remitted a 60 days' draft in dollars for the balance due. Assume the average value of the dollar to be 4s. 2d., but that on the date of maturity of the bill the rate of exchange was 4.87 dollars to the £ sterling. Record the above transactions in P. Potter's books.

6. On 1st May, B. Bailey had a capital of £3,000, consisting of Cash on "Current" A/c £2,250, and Goods £750. On 2nd May he bought goods, on joint venture with L. Phipps, to the value of £2,000; also transferring his goods for trading under the same venture. L. Phipps contributed £1,500 toward the undertaking, and was to receive a proportional share of the result of the venture. By 31st July, B. Bailey had made a net realization on the sale of goods to the amount of £4,750. The expenses of purchase were 2 per cent of cost of goods bought, and the expenses of sale were 3 per cent of their "sale price." Show the result of the venture as would be recorded in the books of B. Bailey.

7. The s.s. *Queenie* made eight voyages with the following results—

No. 1.	Profit, £1,763 10s. 8d.		No. 2.	Profit, £1,942 16s. 7d.	
No. 3.	„ £2,146 3s. 10d.		No. 4.	„ £3,730 14s. 4d.	
No. 5.	Loss, £986 11s. 10d.		No. 6.	„ £5,018 18s. 8d.	
No. 7.	Profit, £2,345 6s. 7d.		No. 8.	Loss, £554 5s. 6d.	

Make up the ship's Net Revenue Account and state what dividend the owners will receive.

8. From the following particulars draw up the Voyage Account of the s.s. *Petrelle*. The voyage was from *K* to *L*, thence to *M*, *N*, *O*, and back to Liverpool.

The port expenses were as follows—

At *K*: Port Charges and Disbursements, £752 10s. 11d. Cash to Captain, £42. Advances to Crew, £68 13s. 4d.

At *L*: Port Charges and Disbursements, £1,275 15s. 6d. Funeral Expenses

and Hospital Fees of Crew, £47 2s. 5d. General Average Charges, £896 3s. 8d. Tobacco, £7 2s. 6d.

At *M*: Cash to Captain, £110 2s. 7d. Port Charges and Disbursements, £375 19s. 9d. Claims on Cargo, £92 1s. 10d. Advances to Crew, £45.

At *N*: Port Charges and Disbursements, £37 15s. 4d. Cash to Captain, £25 14s. 4d. Sundry Stores, £11 3s. 9d.

At *O*: Port Charges and Disbursements, £298 18s. 8d. Advances to Crew, £25. Tobacco, £3 11s. 7d.

Freights Earned: *K* to *L*, £4,128 17s. 3d.; *L* to *M*, £2,063 10s. 5d.; *M* to *N*, £3,856 11s. 2d.; *N* to *O*, £3,198 10s. 10d.

Shipping Fees Received, £7 2s. 6d. Sale of Old Stores, £25 2s. 9d. Outfit and Provisions, £795 15s. 5d. Wages, £1,946 6s. 8d. Forfeited Wages, £78 10s. 4d.

Insurance Premiums: On Freight and Disbursements, £1,956 12s. 2d. On Protection, Indemnity, and Club Calls, £156 13s. 9d. Extra Insurance at *N*, £15 15s.

Commission: To Charterers, £786 17s. 3d. To Management, 2 per cent on gross freight. Brokerage, £72 5s. 6d.

9. The s.s. *Kathleen* started on 1st February on a voyage from *K* to *S*, and thence to Cardiff. Freights were earned as follows: On coal to *L*, £5,893 1s. 4d.; on timber to *M*, £17,310 19s. 4d.; on cotton to *N*, £6,397 12s. 10d.; on sugar to *O*, £5,567 7s. 8d. The *Kathleen* reached Cardiff on 31st August. The Port Charges and Disbursements, Sundry Stores, Expenses, etc., were: At *K*, £1,712 7s.; at *L*, outwards, £2,633 1s. 4d.; at *M*, £1,033 8s. 8d.; at *N*, £1,267 17s. 6d.; at *M*, return, £123 0s. 2d.; at *O*, £21 11s. 2d.; at *N*, return, £2,207 14s. 6d.; at *P*, £99 19s.; at *Q*, £938 7s. 10d.; at *R*, £613 13s.; at *S*, £113 2s. 8d.; at Cardiff, £1,573 0s. 10d. The Manager's Commission amounted to £2,468 11s.

During the voyage the Wages amounted to £2,971 0s. 4d., and the Coal bill to £4,731 11s. 2d. The premiums for general insurance were at the rate of £5,040 per annum, and for leaving *R* late in the season an extra insurance of £745 0s. 10d. was charged. The insurance on freights and other items was £653 18s. 6d. for the whole voyage.

A balance of £450 19s. 10d. profit was brought forward from the previous voyage, and a sum of £375 15s. 2d. (representing unused stores and provisions) is to be carried forward to next voyage.

Make up the Voyage Account, and show the amount of dividend received by the owners.

10. The "Glenisla" Steamship Co., Ltd., owns one "tramp steamer," the s.s. *Glenisla*, 2,211 tons gross register, which was chartered on 27th February as follows—

Cardiff to Genoa with Coal at 8s. 9d. per ton.

NOTE. The charter stipulates for an address commission to the charterers of 2 per cent on the freight, payable on signing Bill of Lading, together with a brokerage of 5 per cent to the charterers' agents, of which one-third is repayable to the vessel.

Agua Amarga (Spain) to Barrow with Ore at 8s. 3d. per ton.

NOTE. Address commission of 2½ per cent on freight payable to charterers, and a brokerage of one-third of 5 per cent payable to charterers' agents on signing charter.

The vessel was insured at Lloyd's on the previous 29th April, the inclusive premium for one year being £1,952 10s. 8d., and the managing owners' remuneration was fixed by the Articles of Association at 2s. 6d. per gross register ton per annum.

The voyage commenced on 9th March, and the following are the particulars from which the accounts are to be made up—

	£	s.	d.
Freight on 3,190 tons Coal to Genoa, and freight on 3,660 tons Ore to Barrow.			
Stores A/cs	162	8	1
Port Charges, Trimming, etc., Cardiff	121	2	3
Captain's Accounts for Harbour Wages, etc., Cardiff	64	7	6
Bunker Coals, as per Engineer's Receipt—279 tons at 9s.; 154 tons at 8s. 11½d.			
Discharging at Genoa	93	15	3
Agents' Disbursements, Genoa, deducted from freight remitted (exch. 27.22), lire 3,012.80.			
Captain's Expenses, Genoa	7	19	–
Stevedore at Agua Amarga, loading 3,660 tons Ore	152	10	–
Dispatch Money	213	13	4
Interest on Advance	10	19	9
Captain's Expenses	5	15	9
Agents' Accounts for Port Charges, Agency, etc., exclusive of address Commission and Brokerage (exch. 26.75), pesetas 2,964.88.			
Bunker Coals at Portland, 20 tons at 18s. 6d., and Port Charges, £3 2s.			
Port Charges, Discharging, and Dispatch Money at Barrow	423	7	6
Captain's Portage Bill	168	6	8
Overlookers' Expenses	4	5	–

The voyage terminated on 28th April.

Prepare the Voyage Account, showing the net profit or loss.

(*Chartered Accountants.*)

11. From the following Trial Balance of the "Linkley" Steam Navigation Co., prepare Revenue Account, Net Revenue Account for the half-year ended 31st May, and Balance Sheet as on that date.

TRIAL BALANCE. 31st May, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Bills Receivable	658	10	2			
Brokerage and Commission	1,073	5	5			
Trade Creditors				4,320	17	7
Victualling	3,517	18	9			
Coals (Bunkers)	10,718	15	4			
Damages, Repairs, and Renewals	8,075	13	6			
Underwriting A/c				2,500	–	–
Wages	7,569	11	10			
Port Charges and Disbursements	4,329	7	3			
Directors' Fees	625	15	6			
Interest on Mortgage	140	–	–			
Mortgages at 4%				7,000	–	–
Sundry Debtors	7,508	18	9			
Steamers	195,208	10	6			
Freight A/c				75,616	14	4
Office Rents, Rates and Taxes	557	13	9			
Accountancy Fees	120	10	6			
Loading and Discharging Expenses	4,566	4	8			
Sundry Stores	1,015	17	5			
Bills Payable				2,465	18	9
Printing, Stationery, and Postages	785	3	10			
Engineers' Charges	1,019	4	7			
Proprietors' Capital				150,000	–	–
A. & M. Bank, Ltd.				2,516	14	8
Commission to Agents	75	13	9			
Reserve for Freight on Uncompleted Voyages as at 31st May				3,146	10	2
	£247,566	15	6	£247,566	15	6

Five per cent of the profit is to be carried to the Underwriting Account, after which the Managers are entitled to 5 per cent Commission. The Steamers are valued at £190,000 on 31st May.

12. On the 1st July, our one-third share of Hansard Estate in Jamaica stood indebted to us £3,175 6s. 2d. On the 2nd August our partners in Jamaica, J. and W. Shirley, advise us that they have shipped 60 casks sugar, per *Minerva*, to Liverpool, which we have insured with the Glove Assurance Co., at £1,700 at £9 9s. per cent, policy 5s. 6d. per cent—£165 6s. 6d.—and we charge commission £8 10s. They also advise that they have shipped 20 hogsheads sugar, per the *Neptune*, to London, for sale, which we have also insured with the Globe Assurance Co., at £600 at £5 5s. per cent, policy 33s.—£33 3s. 0d. Our commission, £3. On the 17th, we accepted J. and W. Shirley's two drafts; one for £220 14s., due 2nd October, the other £170, due 12th October, on their own account. On the 18th we pay J. Gray £173 15s. on account of the estate. On the 20th we sell sundry persons 25 hogsheads sugar, which had formerly been on hand, the net proceeds of which amount to £730 16s. 3d. On the 23rd we paid Smith £42 14s. On the 10th September we accept on Shirley's own account their draft £120, due 2nd November. On the 20th we ship goods, per *Sailor Prince*, for account of this estate, which amount, with charges, commission, and insurance, to £537 6s. 2d., and on Shirley's own account goods to the amount of £440 1s. On the 25th the agents in London inform us of having sold the 20 hogsheads, and enclose Bills for the proceeds, £625 2s. Required the best method to exhibit these transactions in the plainest and most satisfactory manner. (*U.L.C.I.*)

13. The ship *Enid*, value £20,000, is owned as follows—

W. James owns one-tenth. Morrison & Co. own two-fifths.
F. Edwards owns one-fifth. Peters & Son own three-tenths.

She is loaded with a cargo, part of which, valued at £6,000, is shipped on owners' account, and on the remainder, value £2,000, freight amounting to £100 is paid in cash. The owners' share of the cargo is insured for the outward voyage for £7,000, at a premium of 1 per cent, and the ship is insured for the outward and homeward voyages for £22,000, at a premium of 1½ per cent (both premiums being paid in cash). The outward voyage is made in safety, and the owners' share of the cargo is sold for £7,000; and for the return voyage the ship is loaded with a cargo (not on owner's account), the freight on which amounts to £800. Bills for this amount and for the net proceeds of the cargo sold are safely remitted home by the consignee. On the voyage back the ship is lost, and the sum for which she was insured is paid, all but £3,000, which is unpaid owing to the bankruptcy of one of the underwriters. This amount cannot be recovered, and must be written off as a bad debt.

Make the Journal entries required for the whole of the transactions recorded, and draw up a statement showing the financial position of the respective owners after the accounts are closed. (*Civil Service.*)

14. On 1st January, 19.., H. Brown & Co. consigned to Hertz & Co., of Hamburg, per s.s. *Fortuna*, goods valued *pro forma* at £357 11s., incurring expenses as follows: shipping charges, £6 10s.; insurance, £1 2s. 6d.; freight, £7 12s. 6d. On 17th February, H. Brown & Co. received from Hertz & Co. an Account Sales, showing that the consignment had realized £540 gross, and that their expenses and charges were £41 9s., for which they enclosed a sight draft on the Anglo-Foreign Bank, Ltd. Say in what book you would record the dispatch of this consignment and make the entry. Also, make the account as it would appear in the books of H. Brown & Co. (*London Chamber of Commerce.*)

15. The two following Statements represent a consignment of goods sent out by a London House to Bombay, with the account sales of such goods as rendered by the Bombay House. You are asked to make the necessary Journal and Cash Book entries in the books of the two houses, and in the case of the English House to show the Net Profit upon the transactions.

London, 1*st January*.

Messrs. Ardkashir & Byjamji, Bombay.
In Consignment from Faudel Phillips & Sons.

Mark	Nos.	Particulars		£	s.	d.
S		8 Cases various, shipped per s.s. *Ballarat*—				
	1 & 2 = 2	cases contg. (2′ 9″ × 3′ 3″ × 3′ 6″ = 31′ 3″ each case) 500 pieces English Art Needlework and Traced Goods, etc. (as per specification)		75	10	6
	3 & 4 = 2	cases, each contg. 25 only (5′ 4″ × 3′ 0″ × 2′ 4″ = 37′ 4″ each) 50 only Brown Cowhide Gladstone Bags, with Shoes and Clips, 20 in. at 10½d. in. = 17/6 each		43	15	–
	5 = 1	case contg. (5′ 7″ × 3′ 1″ × 2′ 6″ = 43′ 0″) 30 only Brown Cowhide Kit Bags, 18″ at 10½d. per in. = 15/9 each		23	12	6
	6/8 = 3	cases, each contg. 38 spdls. (2′ 8″ × 2′ 10″ × 40″ = 30′ 3″ each) 90 spdls. "Peacock Brand" Fingering Yarn, 2-, 3-, and 4-ply, in Black, White, Clericals, Drabs, Heathers, per spdl. of 6 lb. at 20/6		92	5	–
				235	3	–
		8 Packing Cases, expenses and materials	£2 15 –			
		8 " " cartage to Docks and Shipping	1 – –			
		Marine Insurance on £250 at 1¼ per cent	2 10 –			
		Freight prepaid at 40/– per ton of cubic feet	13 10 11			
				19	15	11
		E. & O. E.		£254	18	11

Total measurements, 270 ft. 11 in.

Account Sales of Goods sold by
Ardkashir & Byjamji, Bombay
For Account of Faudel Phillips & Sons,
Newgate Street, London, E.C.

13*th March*. Bombay.

Mark	Nos.	Particulars		Rs.	as.	pcs.
S		ex Cases.				
	½	500 pcs. Embroidered Goods, etc., realizing in all (as per detail A/c)		1,600	–	–
	¾	50 only Gladstone Bags	20 Rs. 17/8	875	–	–
	5	30 " Kit Bags	18 Rs. 16/–	480	–	–
	6/8	90 Spdl. Yarn "Peacock Brand"	Rs. 22/–	1,980	–	–
				4,935	–	–
		Charges Paid Out, etc.	Rs. as.			
		Landing, Haulage, Sundries	18 –			
		Commission, 5%	246 12			
		Duty, etc., 5%	246 12			
		Bank Brokerage, $\frac{1}{16}$%	2 12			
				514	4	–
				Rs. 4,420	12	–

E. & O.E.

Draft forwarded at Rs. 1/4 = £294 14/4.

(*London Chamber of Commerce.*)

16. On 1st January, W. Smith, of London, consigned per s.s. *Dilwara*, to B. Ready, at Cape Town, 500 tons of iron, invoiced at £4 per ton. B. Ready paid charges amounting to £20 16s. 8d. On 20th February, Ready sold 400 tons at £4 10s. per ton, and forwarded to W. Smith a sight draft with account sales. B. Ready's commission was $2\frac{1}{2}$ per cent. Show the above transactions as they would appear in the books of Smith. Also prepare account sales and form of draft.

(*London Chamber of Commerce.*)

17. 4th February, received the following letter—

Manila, 20*th December*, 19..

DEAR SIRS,—Herewith I hand you invoice of shells shipped, as arranged, for sale on Joint Account of your firm and myself, and I have drawn on you for amount at 4 months' sight through the Chartered Bank. Freight and Insurance forward. Yours truly,

W. A. SIMS.

(Enclosure in foregoing)

Invoice of 159 cases of Shells shipped by the undersigned per s.s. *Ajax*, Capt. Rogers, and consigned to Messrs. Burt & Co. for Sale on Joint Account of them and W. A. Sims.

		£	*s.*	*d.*
W.A.S.—301–362.	62 cases Pearl Shells, 315 cwt., at 6/8	105	–	–
W.A.S.—363–397.	24 cases Cameo Shells, 204 cwt. at 5/–	51	–	–
W.A.S.—398.	1 case Turbo, 7 cwt. at 7/–	2	9	–
W.A.S.—399–439.	40 cases Fancies, 164 cwt. at 8/–	65	12	–
W.A.S.—440–481.	22 cases Museum Specimens, value	75	–	–
		£299	1	–

				£	*s.*	*d.*
Feb.	4.	Accepted Sims's bill, presented by Chartered Bank (No. 319)		299	1	–
,,	4.	Paid Chartered Bank, by cheque, for freight, etc., of shells		93	7	6
Mar.	1.	Retired Sims's bill (No. 319), and obtained Documents for Sims's consignment—				
		Cheque to Chartered Bank	£297 11 2			
		Discount	1 9 10			
,,	10.	Sold at public auction, by Watts & Co., part of Sims's consignment, viz.: Pearl Shells—				
		51 cases, 255 cwt., at 14/–		£178	10	–
		10 ,, 54 cwt., at 12/–		32	8	–
		1 case, 6 cwt., at 7/–		2	2	–
		Cameo Shells—				
		34 cases, 204 cwt., at 8/–		81	12	–
		1 case Turbo, 7 cwt., at 6/–		2	2	–
		40 cases Fancies, 164 cwt., at 8/6		69	14	–
				£366	8	–

Auctioneer's commission, £9 3s. 2d.

Mar. 17.	Received of Watts & Co. by cheque	£357 4 10
„ 20.	Sold for Cash part of 22 cases Museum Shells to S. Stone for	35 – –
„ 24.	Paid City Scavenger for taking away remainder of Museum Shells from Sims, which are worthless . .	7 6
„ 26.	Sent Account Sales of Shells, per *Ajax*, to W. A. Sims. Our Commission, £9 16s. 1d.	

Record the above in Journal and Cash Book, and show the Joint Account in the Ledger. (*Civil Service.*)

18. John Black and Edward Thompson agree to import Swedish timber into this country. On 1st May, they open a Banking Account under the style of "Black and Thompson," for £2,400, towards which Black contributes £1,400 and Thompson £1,000, they dividing profits or losses *pro rata* to their cash contributions (say $\frac{7}{12}$ths and $\frac{5}{12}$ths respectively). They remit to their agent in Sweden, £1,800, to pay for the timber purchased out there, and, later on, a further £100 in settlement of his Account. The Freight, Insurance, and Dock charges are all paid on this side, and together amount to £400. On 31st December the various sales have realized £2,400 net, which enables them to repay themselves (taking no account of Interest) the cash respectively advanced by them on 1st May. The venture is then closed by Black taking over the balance of timber unsold for £380, and for which he pays a cheque into the Banking Account. How much Cash Balance does this leave for final division by way of profit, and how is the same apportioned between Black and Thompson as their respective share of profit thus realized on the venture? (*Institute of Bankers.*)

19. Make entries showing how the transactions detailed below are recorded in the books of the "consignor" and "consignee" respectively.

J. M., of Hull, consigns goods to the amount of £1,200 to his agent, L. R., of London, on which J. M. pays all outward charges, amounting to £50. J. M. draws on L. R. at 60 days for £1,000. Subsequently, L. R. sends an A/S to his principal, indicating that the consignment yielded £1,700, less expenses and commission, which were £85.

20. On 10th March, 19.., Robert Prentice & Co., Ltd., dispatched to their agent in Johannesburg, 12 cases of hardware to be sold for their risk and account. The *pro forma* invoice amounted to £945 16s. 6d. On arrival at Durban, the agent, Mr. John Rowland, made the necessary entry to clear them and paid dock dues, and wharf charges of £4 7s. 8d. and duty at the rate of 22½ per cent.

One case was damaged and on production of the Surveyor's Certificate, Rowland obtained a cheque for £10 16s. 3d. as compensation.

Sales were subsequently made as follows—

			£	*s.*	*d.*
May 16th.	Sold for cash	. . . . .	50	–	–
„ 31st.	„ to	R. Edwards	242	12	9
June 9th.	„ „	K. Lane	194	16	5
„ 24th.	„ „	D. Carden	88	15	4

An account was rendered by Rowland as at June 30th when the value of unsold stock was £630 11s.

Commission of 7½ per cent was agreed upon by Prentice.

Show the Ledger of Rowland and the A/S rendered by him.

21. The X Co., Ltd., by its Articles of Association, is required to set aside and invest the sum of £1,000 per annum before declaring any dividends, in order to provide for the redemption of £40,000 Debentures redeemable in twenty-five years. At the end of that time the instalments so set aside have accumulated at compound interest to £41,645. The investments have been

sold, and the Debentures repaid out of the proceeds of such sale. State how you would deal in the Company's B/S with the credit balance of £41,645 representing the accumulation of the annual instalments.

(Chartered Institute of Secretaries.)

22. Post the following items to their respective Accounts, and draw up a Capital Account, Profit and Loss Account, and Balance Sheet as at 31st December.

A Merchant's Books showed his position on 1st January to be as follows—

		£	s.	d.
Cash at Bankers		1,756	14	10
Bills Receivable in hand		3,250	-	-
Wool and other Produce in hand	£45,200			
Less Advances received thereon	39,000			
		6,200	-	-
Bills Payable due in the following year		7,500	-	-
Consignments to Australia		10,000	-	-
Bank of Australia, Amount due for Advances against Consignments		8,000	-	-
Sundry Creditors, Amount due to them		3,500	-	-

During the year following the Merchant had the following transactions—

	£
Goods Purchased for Export	24,000
Freight Paid thereon	2,760
Insurance Paid	250
Proceeds of Sale of Goods Exported as per Account Sales rendered by Agents	22,500
Exported Goods remaining in hands of Agents at close of year	5,700
Bills Receivable received from Agents in respect of Exported Goods sold	21,000
„ Payable accepted against Goods Purchased for Export	20,000
Cash Paid for Goods Purchased for Export	1,500
Bills Payable Paid at Maturity	24,000
„ Receivable Paid at Maturity during the year, and placed by Bankers to Credit of Banking A/c	7,500
„ Receivable discounted during the year, £15,000 and proceeds, *less* £450 Discount paid into Banking A/c	14,550
Wool and other Produce Sold during the year, and Proceeds in Cash Paid into Banking A/c	50,000
Advances on ditto Repaid	39,000
Interest Paid on such Advances	950
Consignments to Australia realized, and net proceeds Received by Merchant in Cash, and Paid into Banking A/c	9,350
Advances against Consignments repaid to Bank of Australia with Interest thereon	8,400
Office Expenses, Salaries, and Rent paid	2,350
Private Drawings of Merchant	1,500

(Institute of Bankers.)

23. George Hargreave commenced business as a builder on 1st January. He owns a gravel pit, from which he obtains material useful to him in executing his building contracts. From the following figures, obtained from his books, you are required to prepare the gravel pit Working Account for the past year to 31st December, so as to enable him to charge the gravel he uses for his various contracts at the cost price per load. The gravel pit is leased to him for 24 years at a rental of £10 a year, and this he has duly paid. The equipment, consisting of the necessary screening machinery, etc., has cost him £552. The wages of the men at the pit for the year have been £247, while supplies to the department

issued from the general stores (as shown by the storekeeper's records) were implements, £43 15s. 6d., coal and coke, £20 5s. 5d., and sundries £11 11s. 1d. Sales of gravel at the pit to outside purchasers amounted to 1,568 loads at 2s. 6d. per load. Mr. Hargreaves has used on his contracts during the year 2,304 loads of gravel, carted from his pit with his own carts, to cover which he has charged his gravel pit Working Account 4½d. a load. In preparing the account you are required to provide for writing off the value of the equipment over the period of the lease, by equal annual amounts; and, as he allows the pit the benefit of any profit on outside sales, to charge the working account with interest at 5 per cent per annum on the equipment. (*R.S.A.*)

24. John James bought Goods of Edward Rhodes, the Invoice value of which amounted to £367 10s. A discount of 7½ per cent was to be allowed off the account. One-half the net sum was to be paid in Cash, and Rhodes was to draw at 3 months upon James for the balance, plus 1 per cent for commission and at 4 per cent for discount. The transaction was carried out, and the Cash was duly paid, but, shortly before the bill fell due, James, on the plea that the Goods were not wholly disposed of, proposed to Rhodes to pay £50 in Cash, to have the present bill withdrawn, and to give his Acceptance for the balance, plus 30s. per cent Commission and 6 per cent Discount. This was agreed to. The £50 was paid in due course, and the second Acceptance met at maturity.

Make the Journal and Cash Book Entries, giving effect to this transaction, and prepare James's Account as it should appear in Rhodes's Ledger, assuming his books to have been properly kept. (*London Chamber of Commerce.*)

25. The Midland Steel Company, Limited, consigned to its Australian Agents Murray & Co., of Sydney, 125 tons of Steel Bars per s.s. *Tantallon Castle*, Murray & Co. paid for Landing Charges £15, Carting £10, Warehousing £6, Insurance £1, and Advertising £5. On 1st July, they sold the Steel by auction as follows—

25 tons at	£10	per ton
30 ,, ,,	£9 10s.	,, ,,
30 ,, ,,	£9 5s.	,, ,,
40 ,, ,,	£9	,, ,,

They charged commission at 5 per cent. Make out in proper form the Account Sales rendered by Murray & Co. to the Midland Steel Company, Limited, showing the balance due, for which Murray & Co. sent a Bill at 30 days after sight, and record the transactions in the books of Murray & Co.

(*Chartered Accountants.*)

26.

	£	s.	d.
Lewis & Co. sell and ship to Armstrong & Sons of Iquique, sundry goods invoiced as costing	1,004	11	8
The freight, insurance, and dock charges were	89	6	4
,, buying and shipping commission charged was	30	2	–
Total of Invoice was	£1,124	–	–

Lewis & Co. drew on Armstrongs for that amount and secured an advance of £650 from the bankers through whom they were forwarding the documents. The draft was duly accepted.

At due date of draft Armstrongs paid one-half and gave a bill for the balance, plus 6 per cent interest per annum for 6 months.

The bankers were repaid their advance by Lewis & Co., and the extended bill was met at maturity by Armstrongs.

Frame Journal entries to record properly the whole of the above transactions in the books of—

1. Lewis & Co.
2. Armstrong & Sons.

Narrations are essential. *(Civil Service.)*

27. Make out for Stephens & Son, London, an Account Sales of 65 casks of fine Lard marked "A1," sold at 42s. 6d. per cwt., gross weight 185 cwt., tare 28 cwt. 2 qr. The Lard was shipped per s.s. *Rameses* from Williams & Co., of New York. The following charges were incurred—

	£	s.	d.
Freight as per Bill of Lading	15	15	8
Marine Insurance £350 at 25s. per cent, policy stamp 1s.			
Customs Dues		15	6
Unloading, Weighing, etc.	5	12	6
Expenses of Sale	2	10	8
Fire Insurance	13	13	–
Brokerage 7½ per cent.			
Commission 3 per cent.			

28. R. Righton received from L. Affleck, of Montreal, 600 barrels of fine Flour at 19s. 3d. per barrel. Righton paid Freight £27 10s., Insurance £7 15s. 6d., Storage £8 13s. 10d. He sold 325 barrels at 27s. 3d., and 275 barrels at 26s. 2d. per barrel respectively. He charged a Commission of 2½ per cent and forwarded a sight draft for amount due. Record the above transactions in R. Righton's books.

29. On 1st March, W. Williams, a merchant carrying on business in London, consigned to his agent, S. Siegfried, of Hamburg, 1,055 tons of Iron, invoiced *pro forma* at 56s. 6d. per ton. On 1st May he received an Account Sales showing that the whole of the Consignment had realized 69,420 marks. Siegfried's disbursements amounted to 1,425 marks, and his commission was 2½ per cent on the gross proceeds. Siegfried remitted a bill in currency at 2 m/d for the amount due. The Carriage, Cartage, Freight, and Insurance paid by Williams in connexion with the Consignment amounted to £120. Assume the average value of the mark to be 1s., but that on the date the bill was paid the rate of exchange was 20.35 marks to the £ sterling. Record the above transactions in W. Williams' books.

30. Robson and Day entered into a joint speculation with the object of buying at sales any cheap rolling stock or machinery and re-selling same. Purchases, sales, receipts, and disbursements are made, sometimes by Robson and sometimes by Day. They had no joint banking account, but each party worked the transactions through his own business. It was agreed that profits should be shared equally, and that interest at 5 per cent per annum should be reckoned on all cash received and paid. The following were the transactions—

Jan. 5. Robson bought locomotive for £620.
,, 15. ,, paid carriage on same £15.
Mar. 18. Day paid storage for same £1 10s. 6d.
,, 21. ,, ,, insurance 12s. 6d.
June 4. ,, ,, repairs £12 8s. 6d.
,, 28. ,, sold locomotive for £710.
July 4. ,, bought 520 tons rails at £3 5s. per ton.
,, 27. Robson paid landing and transit charges £30.
Aug. 28 ,, ,, storage £3 10s. 6d.
Sept. 3. Day sold rails at £3 10s. per ton.
,, 8. Robson bought 2 cranes at £55 each.
,, 15. ,, sold cranes for £125.

Raise accounts for the Joint Venture, and for both parties, and show how matters stand on 30th September.

CHAPTER VIII

ACCOUNTS CURRENT, AVERAGE DUE DATE

Definition. An account current is a statement in Dr. and Cr. form of the various transactions that have taken place between two merchants or between a principal and his agent. The transactions are set out in chronological order, interest being charged and allowed thereon at an agreed rate or rates per cent per annum.

The Party Rendering the Account. Strictly speaking, the account current is rendered by the party last mentioned in the heading. Thus "*B. Bennett in Account with G. Green*" signifies that G. Green is rendering the account to B. Bennett. The account current is really a copy of B. Bennett's account in G. Green's Ledger. The transactions are, therefore, viewed solely from Green's point of view. Green *debits* Bennett with goods, cash, and bills, sent or paid to him or on his account, and *credits* Bennett with goods, cash, and bills received from him or on his account.

Calculation of Days. In reckoning the number of days for interest, it is not usual to make them both inclusive. Only one end day or "extreme" is counted, viz. the day to which the account is made up, the date of the transaction being omitted. When items are debited or credited before the due date thereof, interest begins to run only from the *due date* of the transactions. When dealing with foreign accounts current, it must be remembered that some countries reckon only 360 days to a year, and 30 days to *each* month.

In example A1 (page 256) the days are reckoned after the following manner—

1st Dr. item			*2nd Dr. item*			*1st Cr. item*		
Jan.	31	days	Mar.	3	days	Feb.	18	days
Feb.	28	,,	April	30	,,	Mar.	31	,,
Mar.	31	,,	May	31	,,	April	30	,,
April	30	,,	June	30	,,	May	31	,,
May	31	,,				June	30	,,
June	30	,,						
	181			94			140	

It is necessary to warn students against a very common mistake when dealing with accounts current that contain an initial balance. If the opening date is the date of a transaction, it will *not* be counted; but if it is the date of a previous balance, it *will* be counted. Thus,

in "1*st Jan., To Goods*," 1st Jan. will not be counted; but in "1*st Jan., To Balance*," 1st Jan. will be counted, because it was really the balance due on 31st Dec. For this reason, therefore, it is advisable to bring down the balance of an account current as on the last day of the previous account.

Table of Days. The following table will be of great service in ascertaining quickly, without the slow process of actual calculation shown previously, the exact number of days in any given period. The student should, however, accustom himself also to that method, as it is the only practicable one in the examination room.

TABLE

SHOWING THE NUMBER OF DAYS IN ANY GIVEN PERIOD OF THE YEAR

Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	32	60	91	121	152	182	213	244	274	305	335
2	33	61	92	122	153	183	214	245	275	306	336
3	34	62	93	123	154	184	215	246	276	307	337
4	35	63	94	124	155	185	216	247	277	308	338
5	36	64	95	125	156	186	217	248	278	309	339
6	37	65	96	126	157	187	218	249	279	310	340
7	38	66	97	127	158	188	219	250	280	311	341
8	39	67	98	128	159	189	220	251	281	312	342
9	40	68	99	129	160	190	221	252	282	313	343
10	41	69	100	130	161	191	222	253	283	314	344
11	42	70	101	131	162	192	223	254	284	315	345
12	43	71	102	132	163	193	224	255	285	316	346
13	44	72	103	133	164	194	225	256	286	317	347
14	45	73	104	134	165	195	226	257	287	318	348
15	46	74	105	135	166	196	227	258	288	319	349
16	47	75	106	136	167	197	228	259	289	320	350
17	48	76	107	137	168	198	229	260	290	321	351
18	49	77	108	138	169	199	230	261	291	322	352
19	50	78	109	139	170	200	231	262	292	323	353
20	51	79	110	140	171	201	232	263	293	324	354
21	52	80	111	141	172	202	233	264	294	325	355
22	53	81	112	142	173	203	234	265	295	326	356
23	54	82	113	143	174	204	235	266	296	327	357
24	55	83	114	144	175	205	236	267	297	328	358
25	56	84	115	145	176	206	237	268	298	329	359
26	57	85	116	146	177	207	238	269	299	330	360
27	58	86	117	147	178	208	239	270	300	331	361
28	59	87	118	148	179	209	240	271	301	332	362
29	—	88	119	149	180	210	241	272	302	333	363
30	—	89	120	150	181	211	242	273	303	334	364
31	—	90	—	151	—	212	243	—	304	—	365

To illustrate the use of the table, let it be supposed that it is required (as in Example A1, *post*), to ascertain the number of days from 28th March to 30th June. We look for 30 in the first column, and on the same line, under *June*, we find the number 181. We next look for 28 in the first column, and on the same line, under *March*, we find the number 87. Subtracting the two numbers, we

get the answer, namely 94 days. In the case of leap year, one day more must be added for February. The above table is also useful in cases of average due date, as explained later.

Different Ways of Reckoning Interest. There are various ways of reckoning interest, that is, from the point of view of time, as follows—

1. *Forward*, i.e. from the due date of each transaction to the end of the period of the account current.

2. *Backward*, i.e. from the due date of each transaction to the *époque* or beginning of the period of the account current.

3. *By steps*, i.e. on the varying balance of the account current from the date of one transaction to the date of the next.

Methods of Calculating Interest. From the point of view of actual calculation, there are different ways of proceeding to find the interest—

(*a*) *By Tables*, which show the exact amount in sterling on each item for the required number of days. The interest columns on each side of the account are then added, and the totals extended into the principal columns. Usually, however, the interest columns are balanced, and only the balance is brought into the account itself.

(*b*) *By Products*, that is, figures obtained by multiplying the number of pounds in each amount sterling by the number of days it has to run for interest. Ten shillings and over are counted as a full pound, smaller sums being ignored. The product columns are then balanced, and the interest on the balance of products extended into the capital columns. The interest is found by means of the following formula: $\text{Interest} = \dfrac{\text{Balance of Products} \times \text{Rate.}}{365 \text{ (or } 360) \times 100}$

In practice, however, it is often found more convenient to double the rate per cent, and divide the result by 73,000 (or 72,000).

(*c*) *By Interest Numbers.* This is merely a variation of the product method. Each product is divided by 100, and the quotient, called interest numbers, is entered in its special column. The number columns are then balanced, and interest on the balance of numbers found by the above formula, except for the division by 100, which has already been done. In the case of long accounts, however, interest numbers are not very reliable, owing to the constant approximation of the quotient to the nearest integer, whenever the division results in a remainder larger than one-half. This method is sometimes called the English method, though it is largely used on the Continent.

(*d*) *By the Third, Tenth and Tenth Rule.* This rule is based on the formula: $\dfrac{1}{73{,}000} = \dfrac{1 + \frac{1}{3} + (\frac{1}{10} \times \frac{1}{3}) + (\frac{1}{10} \times \frac{1}{10} \times \frac{1}{3})}{100{,}000}$

Briefly stated, the method is—

(1) Multiply principal by days, and product by twice rate.

(2) Divide second product by 100,000.

(3) To this add one-third of it, then one-tenth of this third, and then one-tenth of this latter figure.

(4) From result deduct one ten-thousandth, and the final figure is the required interest.

As an example of this working, let us find the simple interest for 120 days on £5,672 at $5\frac{1}{2}$ per cent per annum.

5,672 × 120	=	680,640
680,640 × 11	=	7,487,040
7,487,040 ÷ 100,000	=	74·87040
Add $\frac{1}{3}$	=	24·95680
Add $\frac{1}{10}$	=	2·49568
Add $\frac{1}{10}$	=	·24956
		102·57244
Deduct $\frac{1}{10000}$	=	·01025
Required interest	=	£102·56219 or £102 11s. 3d.

Interest Tables. In examination work, the student should ascertain the interest by means of products, as in the examples shown; but for general practice, he should work the exercises by each of the methods illustrated in the worked examples, in order to master them. When desiring to calculate the interest on each item in sterling, the table on the two following pages will be found very useful.

Varying Rates of Interest. In some cases, different rates of interest are charged in the same account current. The rates may be changed from time to time according to the state of the money market; or it may be that there is one rate for goods, and another for cash. Sometimes, the rate of interest on the debits differs from the rate of interest on the credits. In such cases, the products must be multiplied by their respective rates of interest before they are balanced. An illustration of this is furnished in Example A5.

Balance of Capital or Principal. When accounts current are worked by the *époque* method, the balance of the two principal money columns must be ascertained, and interest charged, or allowed, on it for the period covered by the account. The great advantage of the *époque* method is that it avoids *red ink* interest. The disadvantage of it, however, from the students' point of view, is that they are so liable to forget to include interest on the balance of the money columns. If the balance of capital is a debit balance the interest must be credit, and vice versa. The student should, in this respect, carefully study Example A3.

TABLE

Showing the Interest on £1 at 5 per cent for any Period of Days in a Year

Days	Interest	Days	Interest	Days	Interest	Days	Interest	Days	Interest	Days	Interest
1	·000137	31	·004246	61	·008356	91	·012465	121	·016575	151	·020685
2	·000274	32	·004383	62	·008493	92	·012602	122	·016712	152	·020822
3	·000411	33	·004520	63	·008630	93	·012739	123	·016849	153	·020959
4	·000548	34	·004657	64	·008767	94	·012876	124	·016986	154	·021095
5	·000685	35	·004794	65	·008904	95	·013013	125	·017123	155	·021232
6	·000822	36	·004931	66	·009041	96	·013150	126	·017260	156	·021369
7	·000959	37	·005068	67	·009178	97	·013287	127	·017397	157	·021506
8	·001095	38	·005205	68	·009315	98	·013424	128	·017534	158	·021643
9	·001232	39	·005342	69	·009452	99	·013561	129	·017671	159	·021780
10	·001369	40	·005479	70	·009589	100	·013698	130	·017808	160	·021917
11	·001506	41	·005616	71	·009726	101	·013835	131	·017945	161	·022054
12	·001643	42	·005753	72	·009863	102	·013972	132	·018082	162	·022191
13	·001780	43	·005890	73	·010000	103	·014109	133	·018219	163	·022328
14	·001917	44	·006027	74	·010137	104	·014246	134	·018356	164	·022465
15	·002054	45	·006164	75	·010274	105	·014383	135	·018493	165	·022602
16	·002191	46	·006301	76	·010411	106	·014520	136	·018630	166	·022739
17	·002328	47	·006438	77	·010548	107	·014657	137	·018767	167	·022876
18	·002465	48	·006575	78	·010685	108	·014794	138	·018904	168	·023013
19	·002602	49	·006712	79	·010822	109	·014931	139	·019041	169	·023150
20	·002739	50	·006849	80	·010959	110	·015068	140	·019178	170	·023287
21	·002876	51	·006986	81	·011095	111	·015205	141	·019315	171	·023424
22	·003013	52	·007123	82	·011232	112	·015342	142	·019452	172	·023561
23	·003150	53	·007260	83	·011369	113	·015479	143	·019589	173	·023698
24	·003287	54	·007397	84	·011506	114	·015616	144	·019726	174	·023835
25	·003424	55	·007534	85	·011643	115	·015753	145	·019863	175	·023972
26	·003561	56	·007671	86	·011780	116	·015890	146	·020000	176	·024109
27	·003698	57	·007808	87	·011917	117	·016027	147	·020137	177	·024246
28	·003835	58	·007945	88	·012054	118	·016164	148	·020274	178	·024383
29	·003972	59	·008082	89	·012191	119	·016301	149	·020411	179	·024520
30	·004109	60	·008219	90	·012328	120	·016438	150	·020548	180	·024657

TABLE

SHOWING THE INTEREST ON £1 AT 5 PER CENT FOR ANY PERIOD OF DAYS IN A YEAR (*continued*)

Days	Interest	Days	Interest	Days	Interest	Days	Interest	Days	Interest	Days	Interest
181	·024794	212	·029041	243	·033287	274	·037534	305	·041780	336	·046027
182	·024931	213	·029178	244	·033424	275	·037671	306	·041917	337	·046164
183	·025068	214	·029315	245	·033561	276	·037808	307	·042054	338	·046301
184	·025205	215	·029452	246	·033698	277	·037945	308	·042191	339	·046438
185	·025342	216	·029589	247	·033835	278	·038082	309	·042328	340	·046575
186	·025479	217	·029726	248	·033972	279	·038219	310	·042465	341	·046712
187	·025616	218	·029863	249	·034109	280	·038356	311	·042602	342	·046849
188	·025753	219	·030000	250	·034246	281	·038493	312	·042739	343	·046986
189	·025890	220	·030137	251	·034383	282	·038630	313	·042876	344	·047123
190	·026027	221	·030274	252	·034520	283	·038767	314	·043013	345	·047260
191	·026164	222	·030411	253	·034657	284	·038904	315	·043150	346	·047397
192	·026301	223	·030548	254	·034794	285	·039041	316	·043287	347	·047534
193	·026438	224	·030685	255	·034931	286	·039178	317	·043424	348	·047671
194	·026575	225	·030822	256	·035068	287	·039315	318	·043561	349	·047808
195	·026712	226	·030959	257	·035205	288	·039452	319	·043698	350	·047945
196	·026849	227	·031095	258	·035342	289	·039589	320	·043835	351	·048082
197	·026986	228	·031232	259	·035479	290	·039726	321	·043972	352	·048219
198	·027123	229	·031369	260	·035616	291	·039863	322	·044109	353	·048356
199	·027260	230	·031506	261	·035753	292	·040000	323	·044246	354	·048493
200	·027397	231	·031643	262	·035890	293	·040137	324	·044383	355	·048630
201	·027534	232	·031780	263	·036027	294	·040274	325	·044520	356	·048767
202	·027671	233	·031917	264	·036164	295	·040411	326	·044657	357	·048904
203	·027808	234	·032054	265	·036301	296	·040548	327	·044794	358	·049041
204	·027945	235	·032191	266	·036438	297	·040685	328	·044931	359	·049178
205	·028082	236	·032328	267	·036575	298	·040822	329	·045068	360	·049315
206	·028219	237	·032465	268	·036712	299	·040959	330	·045205	361	·049452
207	·028356	238	·032602	269	·036849	300	·041095	331	·045342	362	·049589
208	·028493	239	·032739	270	·036986	301	·041232	332	·045479	363	·049726
209	·028630	240	·032876	271	·037123	302	·041369	333	·045616	364	·049863
210	·028767	241	·033013	272	·037260	303	·041506	334	·045753	365	·050000
211	·028904	242	·033150	273	·037397	304	·041643	335	·045890	—	—

Side on which Interest Falls. When the days are reckoned by the forward method, that is, from the due date of the transaction up to the end of the period of the account, the interest falls on the *opposite* side to the balance of products; but when reckoned by the backward or *époque* method, the interest should be placed on the *same* side as the balance of products is entered.

Red Ink Interest. When an account is balanced, and contains items which are not due at the date of such balancing, there arises a case of what is called *red ink* interest. Red ink interest denotes interest allowed on items debited in the account before their due dates, also interest charged on items credited in the account before their due dates. Red ink interest runs from the date of closing the account up to the due date of the items prematurely included. The products are worked out in the usual way but are inserted in red ink. They must also be entered in ordinary ink on the opposite side, in order to allow for, or charge, them as the case may be. If there are red ink figures on both sides of the account, then only the balance needs to be transferred to the opposite side, debit or credit according to circumstances. When adding up and balancing the product columns the red ink figures are ignored. Under the *époque* method red ink interest will seldom occur. Such a case could only arise, if there were introduced into the account current an old item having a due date anterior to the *époque*.

Leap Year. In the case of leap year, that is, every year whose two end numbers are divisible by four, except the year of the century, the number of days in February must be reckoned as 29 instead of 28.

Example A. From the following particulars make up an account current to be rendered by G. Green to B. Bennett as at 30th June, reckoning interest at 5 per cent per annum—

19..		
Jan.	1.	Balance owing by Bennett to Green, £127 16s. 6d.
Feb.	10.	Cash received from Bennett, £60.
,,	23.	Goods bought of Bennett, £239 4s. 11d.
,,	25.	Green accepted Bennett's draft at 1 m/d for £100.
Mar.	10.	Cash paid to Bennett, £75.
April	12.	Goods sold to Bennett, due 12th May, £195 10s. 6d.
May	19.	,, bought of Bennett £113 9s. 8d.
June	8.	,, ,, ,, ,, £56 14s. 7d.
,,	15.	Cash paid to Bennett, £50.
,,	20.	Goods sold to Bennett, £248 3s. 10d.
,,	25.	Cash received from Bennett, £100.

Example A1. Interest calculated on each item, from due date of each transaction to end of period of account.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Days	Interest	Amount	Date	Particulars	Days	Interest	Amount
19..			£ s. d.	£ s. d.	19..			£ s. d.	£ s. d.
Jan. 1	To Balance .	181	3 3 6	127 16 6	Feb. 10	By Cash .	140	1 3 –	60 – –
Feb. 25	,, Bill due 28 Mar.	94	1 5 9	100 – –	,, 23	,, Goods .	127	4 3 2	239 4 11
Mar. 10	,, Cash .	112	1 3 –	75 – –	May 19	,, ,, .	42	13 –	113 9 8
Apr. 12	,, Goods due 12 May	49	1 6 4	195 10 6	June 8	,, ,, .	22	3 5	56 14 7
June 15	,, Cash .	15	2 –	50 – –	,, 25	,, Cash .	5	1 5	100 – –
,, 20	,, Goods .	10	6 10	248 3 10	,, 30	,, Interest .			6 4 –
,, 30	,, Interest .			7 7 5	,, 30	,, Balance c/d .			228 5 1
			£	803 18 3				£	803 18 3
June 30	To Balance b/d .			228 5 1		London, 30th June, 19.. G. Green.			
	E. & O.E.								

Example A2. Same as A1, but interest calculated by means of products.[1]

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19..		£ s. d.			19..		£ s. d.		
Jan. 1	To Balance .	127 16 6	181	23,168	Feb. 10	By Cash .	60 – –	140	8,400
Feb. 25	,, Bill due 28 Mar.	100 – –	94	9,400	,, 23	,, Goods .	239 4 11	127	30,353
Mar. 10	,, Cash .	75 – –	112	8,400	May 19	,, ,, .	113 9 8	42	4,746
Apr. 12	,, Goods due 12 May .	195 10 6	49	9,604	June 8	,, ,, .	56 14 7	22	1,254
June 15	,, Cash .	50 – –	15	750	,, 25	,, Cash .	100 – –	5	500
,, 20	,, Goods .	248 3 10	10	2,480	,, 30	,, Balance of Products			8,549
,, 30	,, Interest on Balance of Products: [2]$\frac{8,549 \times 10}{73,000}$	1 3 5			,, 30	,, Balance c/d	228 5 1		
	£	797 14 3		53,802		£	797 14 3		53,802
June 30	To Balance b/d	228 5 1							

[1] This method is recommended to students as the best for examinations.

[2] The net result of all the interest calculations is thus equal to 1 day's interest on £8,549 at 5 per cent per annum.

Example A3. Same as A2, but interest calculated from beginning of period of account, or *époque*, to due date of each transaction.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Capital or Principal	Days	Products	Date	Particulars	Capital or Principal	Days	Products
19..		£ s. d.			19..		£ s. d.		
Jan. 1	To Balance .	127 16 6	—	31 Dec *époque*	Feb. 10	By Cash.	60 – –	41	2,460
Feb. 25	,, Bill due 28 Mar. .	100 – –	87	8,700	,, 23	,, Goods .	239 4 11	54	12,906
Mar. 10	,, Cash .	75 – –	69	5,175	May 19	,, ,, .	113 9 8	139	15,707
Apr. 12	,, Goods due 12 May	195 10 6	132	25,872	June 8	,, ,, .	56 14 7	159	9,063
June 15	,, Cash .	50 – –	166	8,300	,, 25	,, Cash .	100 – –	176	17,600
,, 20	,, Goods .	248 3 10	171	42,408	,, 30	,, Balance of Principal £228 (£797 −£569) .		181	41,268
,, 30	,, Balance of Products			8,549	,, 30	,, Balance c/d	228 5 1		
,, 30	,, Interest on Balance of Products: $\frac{8,549 \times 10}{73,000}$	1 3 5							
	£	797 14 3		99,004		£	797 14 3		99,004
June 30	To Balance b/d	228 5 1							

Example A4. Same as A2, but interest calculated by means of interest numbers.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Amount	Days	Interest Nos.	Date	Particulars	Amount	Days	Interest Nos.
19..		£ s. d.			19..		£ s. d.		
Jan. 1	To Balance .	127 16 6	181	232	Feb. 10	By Cash .	60 – –	140	84
Feb. 25	,, Bill due 28 Mar. .	100 – –	94	94	,, 23	,, Goods .	239 4 11	127	304
Mar. 10	,, Cash .	75 – –	112	84	May 19	,, ,, .	113 9 8	42	47
Apr. 12	,, Goods due 12 May .	195 10 6	49	96	June 8	,, ,, .	56 14 7	22	13
June 15	,, Cash .	50 – –	15	8	,, 25	,, Cash .	100 – –	5	5
,, 20	,, Goods .	248 3 10	10	25	,, 30	,, Balance of Int. Nos. .			86
,, 30	,, Interest on Balance of Nos. $\frac{86 \times 10}{730}$	1 3 5			,, 30	,, Balance c/d	228 5 1		
	£	797 14 3		539		£	797 14 3		539
June 30	To Balance b/d	228 5 1							

Example A5. Interest calculated by means of products, but $3\frac{1}{2}$ per cent charged on debit items, and $4\frac{1}{2}$ per cent allowed on credit items.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN *Cr.*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19..		£ s. d.			19..		£ s. d.		
Jan. 1	To Balance .	127 16 6	181	23,168	Feb. 10	By Cash .	60 – –	140	8,400
Feb. 25	,, Bill due 28 Mar.	100 – –	94	9,400	,, 23	,, Goods .	239 4 11	127	30,353
Mar. 10	,, Cash .	75 – –	112	8,400	May 19	,, ,, .	113 9 8	42	4,746
Apr. 12	,, Goods due 12 May	195 10 6	49	9,604	June 8	,, ,, .	56 14 7	22	1,254
June 15	,, Cash .	50 – –	15	750	,, 25	,, Cash .	100 – –	5	500
,, 20	,, Goods .	248 3 10	10	2,480					
				53,802 7					45,253 9
				376,614					407,277
,, 30	,, Balance of Products			30,663	,, 30	,, Interest . on Balance of Products 30,663 73,000	8 5		
					,, 30	,, Balance c/d .	226 13 3		
	£	796 10 10		407,277		£	796 10 10		407,277
June 30	To Balance b/d .	226 13 3							

Example B. R. Reed has the following transactions with W. White—

19..
Jan. 1. Sold goods to White, £140.
Feb. 15. Remittance received from White, £50.
Mar. 2. Bought goods from White, £345.
,, 3. Accepted White's draft at 1 m/d for £100.
April 11. Cash paid to White, £100.
,, 30. Goods sold to White, £116, due end of May.
May 11. Bought goods from White, £85.
,, 31. Sold goods to White, £125.
June 15. Bought goods from White, £145, due end of July.

Make out an account current to be rendered by R. Reed at 30th June, bringing interest into account at the rate of 5 per cent per annum.

Example B1. Interest calculated on each item from due date of each transaction to end of period of account, similar to A1, but introducing *Red Ink Interest* (shown in heavy type).

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED *Cr.*

Date	Particulars	Days	Interest	Amount	Date	Particulars	Days	Interest	Amount
19..			£ s. d.	£ s. d.	19..			£ s. d.	£ s. d.
Jan. 1	To Goods	180	3 9 –	140 – –	Feb. 15	By Cash	135	18 6	50 – –
Mar. 3	,, Bill due 6 Apr.	85	1 3 4	100 – –	Mar. 2	,, Goods	120	5 13 5	345 – –
Apr. 11	,, Cash	80	1 1 11	100 – –	May 11	,, ,,	50	11 8	85 – –
,, 30	,, Goods due 31 May	30	9 6	116 – –	June 15	,, ,, due 31 July	**31**	**12 4**	145 – –
May 30	,, Goods	30	10 3	125 – –	,, 30	,, Interest			7 3 7
June 30	,, Red Ink Interest as per contra		**12 4**						
,, 30	,, Interest			7 6 4					
,, 30	,, Balance c/d			43 17 3					
				£632 3 7					£632 3 7
					June 30	By Balance b/d			43 17 3

NOTE. The item on the 15th June ought not to be settled till the 31st July. It is, however, being settled on the 30th June, that is, 31 days before the proper time. Interest on the money for 31 days must, therefore, be debited to the account.

Example B2. Same as B1, but interest (including red ink interest) calculated by means of products.[1]

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED *Cr.*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19..		£ s. d.			19..		£ s. d.		
Jan. 1	To Goods	140 – –	180	25,200	Feb. 15	By Cash	50 – –	135	6,750
Mar. 3	,, Bill due 6 Apr.	100 – –	85	8,500	Mar. 2	,, Goods	345 – –	120	41,400
Apr. 11	,, Cash	100 – –	80	8,000	May 11	,, ,,	85 – –	50	4,250
,, 30	,, Goods due 31 May	116 – –	30	3,480	June 15	,, ,, due 31 July	145 – –	**31**	**4,495**
May 31	,, Goods	125 – –	30	3,750	,, 30	,, Balance of Products			1,025
June 30	,, Red Ink Interest as per contra			**4,495**					
,, 30	,, Interest on balance of products: $\frac{1025 \times 10}{73,000}$	2 9							
30	,, Balance c/d	43 17 3							
		£625 – –		53,425			£625 – –		53,425
					June 30	By Balance b/d	43 17 3		

[1] This method is recommended to students as the best for examinations.

Example B3. Same as B2, but interest calculated from due date of each transaction to *époque* or beginning of period of account.

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED *Cr.*

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
19..		£ s. d.			19..		£ s. d.		
Jan. 1	To Goods .	140 – –	—	*époque*	Feb. 15	By Cash .	50 – –	45	2,250
Mar. 3	,, Bill due 6 April .	100 – –	95	9,500	Mar. 2	,, Goods .	345 – –	60	20,700
Apr. 11	,, Cash .	100 – –	100	10,000	May 11	,, ,,	85 – –	130	11,050
,, 30	,, Goods due 31 May .	116 – –	150	17,400	June 15	,, ,, due 31 July .	145 – –	211	30,595
May 31	,, Goods .	125 – –	105	18,750					
June 30	,, Balance of Capital, £44 .		180	7,920					
,, 30	,, Balance of Products .			1,025					
,, 30	,, Interest on Balance of Products: $\frac{1025 \times 10}{73,000}$	2 9							
,, 30	,, Balance c/d	43 17 3							
		£625 – –		64,595			£625 – –		64,595
					June 30	By Balance b/d .	43 17 3		

Example B4. Same as B2, but interest calculated on the varying balance of the account from the date of one transaction to the date of the next, allowing for any items debited or credited before their due dates.

W. WHITE IN ACCOUNT WITH R. REED

Date	Items		Amount	Due Date	Days	Products Dr.	Products Cr.
19..			£ s. d.			£	£
Jan. 1	To Goods .	Dr.	140 – –	. .	45	6,300	
Feb. 15	By Cash .	Cr.	50 – –				
		Dr.	90 – –	. .	15	1,350	
Mar. 2	By Goods .	Cr.	345 – –				
		Cr.	255 – –	. .	1		255
,, 3	To Bills Payable .	Dr.	100 – –	6 April	34		3,400
		Cr.	155 – –	. .	39		6,045
April 11	,, Cash .	Dr.	100 – –				
	Carried Forward	Cr.	£55 – –			£7,650	£9,700

W. WHITE IN ACCOUNT WITH R. REED (*Contd.*)

Date	Items		Amount	Due Date	Days	Products	
						Dr.	Cr.
			£ s. d.			£	£
	Bt./Fd.	Cr.	55 – –			7,650	9,700
				. .	19		1,045
April 30	To Goods .	Dr.	116 – –	31 May	31		3,596
		Dr.	61 – –	. .	11	671	
May 11	By „ .	Cr.	85 – –				
		Cr.	24 – –	. .	20		480
„ 31	To „ .	Dr.	125 – –				
		Dr.	101 – –	. .	15	1,515	
June 15	By „ .	Cr.	145 – –	31 July	46	6,670	
		Cr.	44 – –	. .	15		660
„ 30	To Interest on Balance of Products: $\frac{1025 \times 10}{73,000}$	Dr.	2 9				1,025
		Cr.	£43 17 3			£16,506	£16,506

NOTE. This method is sometimes called the "Hamburg" method.

QUESTIONS

1. What is an Account Current? Explain the meaning of the following—
"F. Smithers in Account Current with P. Jones."
2. Explain, with example, how the days in any given period are calculated.
3. When transactions have both a date of entry and a due date, from which date does interest commence?
4. When is the initial date in an account current (*a*) counted, (*b*) not counted? At what date should the balance of an account current be brought down, and why?
5. Find, by means of actual calculation, the number of days from 16th January to 29th May, and verify your answer by means of the Table of Days in this chapter.
6. Explain briefly the three different ways of reckoning interest, in accounts current, as regards the number of days.
7. Explain briefly the different methods of calculating the amount of interest in accounts current.
8. Describe the system known as the Hamburg method.
9. Ascertain, at sight, the interest represented by the following decimals—
(*a*) ·765428; (*b*) ·954907; (*c*) ·387619; (*d*) ·858762.
10. Find, by actual calculation, the interest on £179 for 239 days at the rate of 5 per cent per annum, and verify your answer by means of the Interest Tables in this chapter.

AVERAGE DUE DATE

Definition. The average due date is the mean, or equated, date on which a single payment may be made in lieu of several payments on different dates.

For What Purpose Used. The average due date method of payment is used in the settlement of bills and contra accounts, and for calculating interest (*a*) on partners' drawings, (*b*) on the realization of book debts in a partnership liquidation.

Process of Working. The method of working is as follows—

1. Take any convenient date, preferably the *first* due date of the transactions, as a starting-point.
2. Multiply the amount of each transaction by its number of days from the starting-point. Fractions of a pound under ten shillings are ignored; ten shillings and over are counted as another pound.
3. Add up these various products into one total.
4. Add up the amounts of the various transactions into one total.
5. Divide the total of the products by the total amount of the transactions.
6. The result will be the number of days that the average due date is *subsequent* to the starting-point. This date can then be calculated, one-half of a day or over being counted as another day, and fractions under one-half being ignored.

If we base our calculations on the *last* due date as the starting-point, the answer will give us the number of days that the average due date is *previous* to the starting-point. Should we select an intermediate date as the *époque* or fixed starting-point, then we must take the difference between the two lots of products, i.e. those *previous* to the *époque* and those *subsequent* to it. The balance belongs to the side of the greater products. If the products above the *époque* transaction are the greater, the average due date will be *prior* to the starting-point; if the products below the *époque* transaction are the greater, then the average due date will be *subsequent* to the starting-point.

Where there are both debit and credit items, a starting-point must be fixed, either one of the inside or one of the outside dates, but preferably the first due date. Each side must then be treated separately. Divide the balance of the products by the balance of the money columns. The result will show the number of days that the average due date is from the *époque* or base date.

Example 1. A merchant has purchased goods, the due dates of which are as follows—

March 15th, £220, due April 18th.		April 27th £200, due June 30th.	
April 21st, £125, „ May 24th.		May 15th, £350, „ July 18th.	

He wishes to give a bill for the total amount due, the bill to be drawn payable on the average due date. Ascertain this date.

12

1. Take 18th April as starting-point.

				Amounts		*Days*		*Products*
April 18th	=	0	days from starting-point.	£220	×	0	=	0
May 24th	=	36	,, ,,	125	×	36	=	4,500
June 30th	=	73	,, ,,	200	×	73	=	14,600
July 18th	=	91	,, ,,	350	×	91	=	31,850
				£895				50,950

$\frac{50950}{895}$ = 57 nearly. The average due date is, therefore, 57 days from starting-point. Calculating this, we find the average due date is the 14th June, i.e. 12 in April, 31 in May, 14 in June.

2. Take 18th July as starting-point.

Amounts		*Days*		*Products*
£220	×	91	=	20,020
125	×	55	=	6,875
200	×	18	=	3,600
350	×	0	=	0
£895				30,495

30,495 ÷ 895 = 34. The average due date is, therefore, 34 days *previous* to 18th July. This works out to 16 days from the end of June (18 in July and 16 in June). June 30th–16th = 14th June, as before.

3. Take 30th June as starting-point.

Amounts		*Days*		*Products*	
£220	×	73	=	16,060	
125	×	37	=	4,625	
					20,685
200	Zero Date				
350	×	18	=		6,300
£895					14,385

The number 14,385 is the difference between the totals of the products previous to the starting-point and subsequent to it (20,685 –6,300). The balance belongs to the side of the greater products, and the due date in this case will consequently be *prior* to the starting-point.

14,385 ÷ 895 = 16. The average due date is, therefore, June 30th–16th, that is, the 14th June, as in the two previous examples.

Example 2. S. Spender, a partner in the firm of Wise & Co., has, during the year, drawn for his own use the following sums—

17th Jan., £20; 25th Feb., £15; 15th Mar., £25; 19th Apr., £16; 14th May, £22; 23rd June, £19; 18th July, £24; 25th Aug., £18; 20th Sept., £25; 16th Oct., £17; 21st Nov., £21; 25th Dec., £30.

He is to be charged interest thereon at 5 per cent per annum up

to the end of the year. Work out the total interest by means of the average due date method.

Amounts		*Days*		*Products*
£20	×	348	=	6,960
15	×	309	=	4,635
25	×	291	=	7,275
16	×	256	=	4,096
22	×	231	=	5,082
19	×	191	=	3,629
24	×	166	=	3,984
18	×	128	=	2,304
25	×	102	=	2,550
17	×	76	=	1,292
21	×	40	=	840
30	×	6	=	180
£252				42,827

42,827 ÷ 252 gives 170 days prior to 31st Dec. as the average due date; Interest on £252 at 5 per cent for 170 days = 252 × ·023287 (Interest Table) = £5·868 = £5 17s. 4d.

We will now verify our answer by means of the product method. The products will be the same as before, namely, 42,827.

$$\frac{42{,}827 \times 10}{73{,}000} = £5{\cdot}867 = £5\ 17\text{s.}\ 4\text{d.}$$

We will next verify our answer by ascertaining the interest on each item separately.

Date	*Days*	*Amount*	*Decimals (Interest Table)*	*Interest*
		£		£ s. d.
Jan. 17	348	20	·047671	19 1
Feb. 25	309	15	·042328	12 8
Mar. 15	291	25	·039863	19 11
April 19	256	16	·035068	11 3
May 14	231	22	·031643	13 11
June 23	191	19	·026164	9 11
July 18	166	24	·022739	10 11
Aug. 25	128	18	·017534	6 4
Sept. 20	102	25	·013972	7 –
Oct. 16	76	17	·010411	3 6
Nov. 21	40	21	·005479	2 4
Dec. 28	6	30	·000822	6
		£252		£5 17 4

Example 3. C. Chambers sells goods to S. Coles, as under—4th Jan., £250; 18th Feb., £175; 24th Mar., £210.

He also buys goods from S. Coles as follows—

23rd Jan., £125; 10th Mar., £236; 17th April, £85.

Chambers's terms are bill at two months, but Coles's terms are bill at one month. Both parties, however, desire payment at the equated date. When will this be, and for what amount?

Dr. S. COLES IN ACCOUNT WITH C. CHAMBERS *Cr.*

Date	Item	Due Date	Amount	Days	Products	Date	Item	Due Date	Amount	Days	Products
19..		19..	£			19..		19..	£		Starting point
Jan. 4	To Goods	Mar. 7	250	9	2,250	Jan. 23	By Goods	Feb. 26	125	—	
Feb. 18	" "	Apr. 21	175	54	9,450	Mar. 10	" "	Apr. 13	236	46	10,856
Mar. 24	" "	May 27	210	90	18,900	Apr. 17	" "	May 20	85	83	7,055
						" 17	" Balance c/d		189		12,689
			£635		30,600				£635		30,600
Apr. 17	To Balance b/d		189								

$$\frac{12689}{189} = 67. \left\{ \begin{array}{l} \text{67 days from starting-point} = \text{4th May} \\ \text{(2 in Feb., 31 in Mar., 30 in April, and 4 in May)} \end{array} \right.$$

On 4th May, then, Coles must pay Chambers £189.

NOTE. Days of grace, i.e. three days must be included when calculating due dates.

Average Due Date and the Table of Days. The Table of Days early in this chapter will be found very serviceable in determining quickly and accurately the *day* and *month* of the average due date. Let us refer to Example 1 on page 262. We require to know the average due date, which the answer says is 57 days from the starting-point, viz. 18th April. From the table we find—

Number corresponding to 18th April = 108; 108 + 57 = 165.

Date corresponding to the number 165 = 14th June.

Again, in Example 3 (above) the average due date, according to the answer, is 67 days from the starting-point of 26th Feb. From the table—

26th Feb. = 57; 57 + 67 = 124; 124 = 4th May.

QUESTIONS

1. Explain what variation in calculation is necessary when different rates are charged on debits and credits in the same account current.

2. What is Red Ink Interest? How does it arise? How is it dealt with?

3. Explain the phrase, "Balance of Capital or Principal," and what treatment it requires in particular accounts current. How does leap year affect the number of days (*a*) in the monthly calculation, (*b*) in the yearly calculation?

4. On which side is the balance of products entered, and to which side does it belong?

5. On which side is the balance of interest entered, and to which side does it belong—
(*a*) In the forward method?
(*b*) In the backward or *époque* method?
(*c*) In the "steps" method?

6. When there is "red ink" interest on both sides of an account current, how is it treated?

7. What is meant by "average due date"? For what purposes is such method of calculation used?

8. Explain briefly the process of ascertaining the average due date of several transactions.

9. How would the same average due date calculation be affected—
(*a*) By taking the first due date as the starting-point?
(*b*) ,, ,, ,, last ,, ,, ,, ,, ?
(*c*) ,, ,, an intermediate ,, ,, ,, ?

10. How is the average due date ascertained when there are several debit and several credit transactions of varying due dates?

EXERCISE VIII

1. What do you understand by an Account Current? Make out such an account for Yeadon & Co. from the following—

Jan.	1.	Sold Goods to Marshall & Co., £200, due 1st March.
Feb.	1.	Received cash from Marshall & Co., £100.
Mar.	1.	Bought Goods from Marshall & Co., £500, due 1st May.
April	1.	Paid Marshall & Co., £300.
May	1.	Bought Goods from Marshall & Co., £200.
June	30.	Sold Goods to Marshall & Co., £300.

Interest 5 per cent, the account to be made up to 30th June.

(*U.L.C.I.*)

2. The undermentioned transactions took place between Robertson & Co., of London, and Trumper & Co., of Melbourne—

			£
Dec.	31.	Balance owing by Trumper & Co. to Robertson & Co. at this date	500
Jan.	7.	Robertson & Co. shipped Goods to Trumper & Co.	300
April	10.	Bank Draft received this day by Robertson & Co. from Trumper & Co.	600
,,	15.	Robertson & Co. paid on behalf of Trumper & Co.—	
		Charges, Orient Mail S.S. Co.	50
		London Packing Co., Ltd.	100

Prepare Account Current bearing interest at 5 per cent to be rendered by Robertson & Co. to Trumper & Co., as on 30th April. (*R.S.A.*)

3. Define an "Account Current," and make out such an account for Alfred Brown in respect of the following transactions with Charles Dawson—

19..		
Jan.	17.	Goods sold to Charles Dawson, £200, due 1st February.
Feb.	1.	Received cash from Charles Dawson, £50.
Mar.	18.	Goods bought of Charles Dawson, £300, due 1st April.
April	1.	Paid to Charles Dawson, cash, £200.
May	1.	Goods bought of Charles Dawson, £150.
,,	10.	,, sold to Charles Dawson, £120, due 1st June.

The account to be made up to 1st June, 19.., interest to be at 6 per cent per annum, which may be calculated by months instead of days.

(*U.L.C.I.*)

4. T. Tongs has the following transactions with P. Parker—

July 3. Sold goods to P. Parker, £175 16s. 11d.
Aug. 14. Remittance from P. Parker, £75 15s. 6d.
Sept. 8. Goods bought of P. Parker, £319 10s. 7d.
„ 10. Accepted P. Parker's draft, dated 9th inst., at 1m/d for £125.
Oct. 15. Cash paid to P. Parker, £95 14s. 10d.
„ 31. Goods invoiced to P. Parker, £138 2s. 8d. due 1 m/d.
Nov. 9. Bought goods from P. Parker, £65 18s. 3d.
„ 30. Sold goods to P. Parker, £115 17s. 11d.
Dec. 20. Bought goods from P. Parker, £167 7s. 9d.

Make up an Account Current to be rendered by T. Tongs at 31st December, bringing interest into account at the rate of 5 per cent per annum.

5. From the following particulars make up an Account Current to be rendered by C. Evans to W. Wood, as at 31st December, reckoning interest at 5 per cent per annum—

July 5. Sold goods to Wood, £163 9s. 10d.
Aug. 12. Remittance from Wood, £66 16s. 6d.
Sept. 7. Bought from Wood, £356 6s. 11d.
„ 8. Accepted Wood's draft at 1 m/d for £110 10s. 10d.
Oct. 12. Cash paid on account of Wood, £99 9s. 11d.
„ 30. Goods sold to Wood, £127 13s. 4d., due end of November.
Nov. 13. Bought goods from Wood, £92 13s. 3d.
„ 30. Sold goods to Wood, £136 5s. 8d.
Dec. 11. Bought goods from Wood, £155 15s. 5d., due 11th January.
„ 17. Sold goods to Wood, £129 16s. 4d., due 17th January.

6. E. Easton receives on account of W. West—

10th Jan., £120 2s. 11d.; 15th Feb., £250 9s. 6d.; 21st Mar., £300 15s. 10d.; 18th April, £275 16s. 8d.
He pays on account of W. West—

15th Jan., £75 15s. 8d.; 8th Feb., £199 18s. 10d.; 16th Mar., £256 10s. 9d.; 20th April, £240 3s. 6d.

Make up an Account Current to end of June, charging and allowing interest at the rate of 6 per cent per annum.

7. From the following particulars construct an Account Current as at 25th April, reckoning interest at 5 per cent per annum, and show amount of cheque in settlement—

N. NORTHCOTE IN ACCOUNT WITH S. ANDERSON & CO.

19..			£	s.	d.	19..			£	s.	d.
Apr. 16.	To	Your Draft at sight . .	250	–	–	Apr. 18.	By	Cash as A/S	355	2	10
„ 16.	„	Charges as A/S . .	127	17	11	„ 22.	„	„ „	75	16	4
„ 18.	„	Advertising	1	15	6	„ 22.	„	Proceeds as A/S due 15th May .	238	18	11
„ 25.	„	Our Commission .	33	9	11						

8. From the following particulars construct an Account Current, reckoning interest at 5 per cent per annum to 30th June—

O. JORDAN IN ACCOUNT WITH T. TETLOW

19..		£	s.	d.	19..		£	s.	d.
Jan. 1.	To Balance .	771	10	8	Feb. 12.	By A/S of Cotton .	1,019	18	8
„ 23.	„ Cash paid to meet your sight Draft	55	8	6	Apr. 30.	„ A/S of Cotton .	957	4	2
Feb. 8.	„ Acceptance of your Draft due 11th Mar. .	300	–	–					
„ 26.	„ Cash paid to meet your Sight Draft	52	12	7					
Mar. 9.	„ Acceptance of your Draft due 12th May .	300	–	–					
Apr. 15	„ Cash paid to meet your Sight Draft	110	10	5					
May 10.	„ Ditto . .	92	16	8					
June 8.	„ Acceptance of your Draft due 11th Aug. .	200	–	–					

9. M. Bressloff of Liverpool dispatched goods to his agent, M. Goodman of Calcutta, and the agent forwarded sale sheets as under—

12th Jan., £420 10s. 6d.; 15th Feb., £356 9s. 11d.; 21st Mar., £238 18s. 10d.; 10th April, £127 2s. 8d.

The terms of payment were net cash in Liverpool two months from date of sale sheet. Remittances were made as follows—

10th Mar., £250; 10th April, £150; 6th May, £250; 15th June, £350.

Settlement was to be effected half-yearly, on the basis of an Account Current, with interest at the rate of 5 per cent per annum. Draw up the Account Current and show balance due on 30th June.

10. From the following particulars, draw up an Account Current as at 31st May, reckoning interest at 5 per cent per annum—

C. CEDAR IN ACCOUNT WITH J. HUGHES

19..		£	s.	d.	19..		£	s.	d.
Jan. 1.	To Balance .	287	11	5	Feb. 10.	By Net Proceeds, A/S of Cotton, due end of Feb. .	965	13	10
„ 26.	„ Cash paid to your Sight Draft .	50	4	7	May 15.	„ Net Proceeds, A/S of Cotton, due end of May .	1,017	2	8
Feb. 6.	„ Acceptance of your Draft @ 2 m/d .	500	–	–					
„ 25.	„ Cash paid to your Sight Draft .	125	10	6					
Apr. 6.	„ Acceptance of your Draft @ 2 m/d .	500	–	–					
„ 11.	„ Cash paid to your Sight Draft .	120	15	6					
May 11.	„ Ditto . .	225	16	2					

11. The following sums have been drawn by J. Stewart, a partner in the firm of Flowers & Co.—

15th Jan., £35; 20th Feb., £45; 18th Mar., £35; 20th April, £25; 13th May, £26; 15th June, £15; 20th July, £42; 17th Aug., £34; 21st Sept., £32; 14th Oct., £28; 18th Nov., £35; 21st Dec., £38.

Make up his Drawings Account as at 31st December, charging interest at 5 per cent per annum, and calculating same by means of the product method, as in accounts current.

12. From the following prepare an Account Current, reckoning interest at 5 per cent per annum to end of March—

L. LOCKE IN ACCOUNT WITH K. KAY

19..		£	s.	d.	19..		£	s.	d.
Jan. 1.	To Balance .	125	15	3	Feb. 10.	By Cheque .	70	–	–
Feb. 12.	,, Goods .	62	10	6	,, 15.	,, Draft @ 1 m/d	65	–	–
					Mar. 5.	,, Expenses .	15	11	3
					,, 31.	,, Postages .	1	12	6
					,, 31.	,, Commission	1	2	6

13. Prepare an Account Current, to be rendered by O. Oldham, of Bombay, to N. Newton, of Manchester, from the following particulars—

Balance due to N. Newton on 1st Jan., £753 2s. 11d.

N. Newton accepted drafts as under—

29th Jan., £250 at 1 m/d; 28th Feb., £250 at 1 m/d; 31st Mar., £250 at 1 m/d.

Payments made on account of O. Oldham—

22nd Jan., £27 16s. 4d.; 12th Feb., £106 12s. 6d.; 11th April, £152 3s. 11d.; 13th May, £236 12s. 10d.

Credits to O. Oldham—

27th Jan., net proceeds of Account Sales of Cotton, £1,617 14s. 8d., due 15th March; 24th May, net proceeds of Account Sales of Cotton, £606 2s. 8d., due 15th June.

Interest to be calculated at 5 per cent to end of June.

14. A. Ashton, of London, sells goods to B. Beech, of Calcutta, for payment in London on the average due date. The sales are due as under—

5th June, £726 16s. 2d.; 12th July, £979 17s. 8d.; 26th Aug., £1,127 3s. 11d.; 18th Sept., £359 8s. 6d.

Find the average due date by taking 5th June as the starting-point, and verify your answer by taking (*a*) 18th Sept., (*b*) 26th Aug., as starting-points respectively.

15. A merchant desires to ascertain the average date on which to draw for the total amount, as follows—

5th June, £355 9s. 10d.; 8th July, £466 16s. 8d.; 11th Sept., £229 14s. 7d.

State the average due date, and show the process of working.

16. A merchant trading with a distant colonial market allows long credit, and his terms of payment are: "All goods purchased during the month to be drawn for on the 15th of the following month, at six months, plus bill stamp." Goods are sold as follows—

12th Jan., £375 2s. 9d.; 26th Feb., £268 16s. 6d.; 3rd March, £349 14s. 4d.; 19th March, £186 3s. 7d.

The total is drawn for at the average due date. Ascertain this date.

17. A merchant has purchased goods the due dates of which are as under—

12th Aug.,	£156 15s. 9d.,	due on	12th Sept.
21st Aug.,	£298 4s. 5d.,	,,	1st Oct.
23rd Sept.,	£127 17s. 2d.,	,,	1st Nov.
9th Oct.,	£395 5s. 8d.,	,,	19th Nov.

Payment is arranged to be made for the total amount at the average due date. What is this date?

18. E. Ellis, a partner in the firm of Forest & Co., has, during the year, drawn for his own use the following sums—

11th Jan., £25; 15th Feb., £15; 18th March, £28; 13th April, £25; 17th May, £22; 20th June, £25; 23rd July, £24; 12th Aug., £26; 14th Sept., £21; 16th Oct., £23; 15th Nov., £28; 21st Dec., £35.

He is to be charged interest at the rate of 5 per cent per annum on the total amount at the average date. Ascertain his interest, and verify your answer—

(1) By means of the product method as in accounts current;
(2) By calculating the interest on each item separately.

19. F. Elliott sells goods to P. Pine as under—

12th July, £26 13s. 2d.; 20th Aug., £129 5s. 10d.; 15th Sept., £265 17s. 11d.

He also purchases goods from P. Pine as follows—

20th July, £178 4s. 8d.; 10th Aug., £296 18s. 6d.; 22nd Sept., £97 6s. 8d.

Elliott gives only one month's credit, but Pine allows two months. Both parties, however, desire settlement at the equated date. When will this be, and for what amount?

20. Jones and Brown dissolve partnership on 1st January, and their Balance Sheet, after all adjustments, was as follows—

BALANCE SHEET AS AT 1ST JAN.

Liabilities	£	*s.*	*d.*	*Assets*	£	*s.*	*d.*
Sundry Creditors	1,277	12	6	Cash	1,565	10	5
Capital A/cs—				Sundry Debtors	4,281	10	10
Jones	3,000	–	–	Fixtures and Fittings	430	11	3
Brown	2,000	–	–				
	£6,277	12	6		£6,277	12	6

Brown is to take over the Fixtures at their book value, to allow Jones £700 for his share of the Goodwill, and to pay him the amount due as and when realized, interest to be brought into account at the rate of 5 per cent per annum. The Debtors were realized at an average date of eight months, and the Creditors paid at an average date of five months, from the date of dissolution. Brown paid Jones £650 on 15th March, £650 on 15th June, £650 on 15th September, and the balance on 31st December. Draw up the Account Current, and show the final payment made to Jones.

21. Sykes & Son consigned Goods value £850 to Bailey & Co., their Belfast agents, on 21st February, and drew on them at 4 m/d for that amount. They discounted the bill on the same date, being charged £14 3s. 4d. for discount. On 31st March, Bailey & Co. advised that they had paid £28 13s. 9d. for Freight and Landing Charges on account of the Consignment. On 31st May, Bailey & Co. remitted £450 on account of proceeds, and on 31st August they forwarded an Account Sales showing that the goods had realized gross £1,056, and charging

their Commission of 3 per cent on that amount. Sykes & Son retired Bailey & Co.'s acceptance at maturity. Record the above transactions in Sykes & Son's books, and show the Ledger accounts.

22. On 21st February, Thomas Ruffles forwarded to Henry Crichton & Son on consignment 25 chests of Indigo at £51 per chest, paying £12 12s. 6d. for Freight. On 18th May he received an Account Sales dated 20th April showing that the Goods had realized £1,246 10s. 8d. gross, and that the following expenses had been incurred—

	£	s.	d.
Dock Dues and Insurance	8	10	11
Cartage	2	15	6
Storage	3	4	7
Commission 3 per cent.			
Del Credere Commission, 2½ per cent.			

and enclosing a bill at three months for the amount due. Record the above transactions (*a*) in Ruffles' books, (*b*) in Crichton & Son's books. Show also the Account Sales.

23.

			£ s. d.
Jan. 5.	Shipped per s.s. *Ravenna* to Hong Kong, consigned to Ah Hee & Co., on equal shares with them as follows—		
	Goods (chemicals)	£600 13 –	
	,, (sundries)	98 1 8	
		£698 14 8	
	Our Commission	17 9 4	
	Insurance	7 10 –	
	Freight	26 8 9	750 2 9
,, 6.	Drew Bill at 90 d/s for $5,455.54 on Ah Hee & Co., and sold it with **documents** attached to Hong Kong and Shanghai Bank at 2/9, receiving Cheque for		750 2 9
,, 10.	Paid by Cheques—		
	Royal Exchange Corporation (for insurance on *Ravenna*)		7 10 –
	Peninsular and Oriental S.N. Co. (freight on ditto)		26 8 9
June 4.	Received from Ah Hee & Co., Account Sales of Goods per *Ravenna*—		
	Gross proceeds	$6,872.52	
	Charges	326.17	
	Their Commission	171.82	
,, 5.	Drew Bill on Ah Hee & Co. for $460, our share of net proceeds of shipment per *Ravenna* and sold it to Hong Kong and Shanghai Bank at 2s. 8¾d., receiving Cheque		62 15 5

Record the above in Journal and Cash Book, and show the Consignment Account in the Ledger. (*Civil Service.*)

24. Isaac Solomon of London, Wine and Spirit Exporter, shipped to Davis & Co., of Bombay, 320 cases of Brandy at 23s. 6d. per case, f.o.b. He disbursed by way of Insurance £4 17s. 6d., and £8 15s. for Freight, forwarding by mail, in due course, Invoice amounting to £389 12s. 6d.

The goods were sold at an average price of 18½ Rupees per case. The charges were, in respect of Commission ⅝ths Rupee per case, 32 Rupees for delivery, rent, etc., and 8 Rupees for postage, etc. Davis & Co. sent forward Account Sales with a Draft at sight (sterling) on London, taking the Rupee at 1s. 6½d. Make out the Account Sales, and show how the respective entries would appear in Solomon's Books. (*London Chamber of Commerce.*)

25. Prepare the necessary Journal entry for the transaction below and post same to Ledger—

Invoice of chain shipped per s.s. *Falcon*, London to Bombay, via Suez Canal, and consigned to Messrs. Larrissa & Co., Bombay, for sale and returns, by Messrs. Johnson, Gibbs & Co.

C	6 short link chains, weighing 155 cwt. 2 qr. at 12s. per cwt.		£93 6 –
Bombay 1/6	*Charges*		
	Freight on 7 tons 15 cwt. 2 qr. at 30s. and 10 per cent primage	£12 16 7	
	Bill of Lading and Postages . . .	2 6	
	Insurance on £110 at 10s. and Duty .	11 6	
			13 10 7
			£106 16 7

E. & O.E.

London, 1st January, 19. . (*London Chamber of Commerce.*)

26. Referring to the preceding question, the following is a copy of the Account Sales rendered by the Consignee. Prepare the necessary Journal and Ledger entries in the books of both Consignor and Consignee.

Account Sales of chains ex. s.s. *Falcon* from London, sold by the undersigned Larrissa & Co. on account and at the risk of Messrs. Johnson, Gibbs & Co.

C	6 chains weighing 155 cwt. 2 qr. at Rs. 11 per cwt.		Rs. 1,708 11 8
	Charges		
	Import Duty *ad valorem*, Rs. 1708 11 8 at 1 per cent	17 1 4	
Bombay 1/6	Wharfage, Landing, Storing, Delivery, Rent, Fire Insurance, Commission, and del credere at 10 per cent	170 13 11	
			187 15 3
			Rs. 1,520 12 5

E. & O.E.

Bombay, 15th February.

Remitted by Demand Draft on London at exchange of 1s. 4d. . £101 7 8

(*London Chamber of Commerce.*)

27. Messrs. Lux and Lucifer, Birmingham, consign on 1st February, to M. Marconi, of Milano, 500 "Radiant" Electric Lamps, invoiced at 18s. each, and pay Freight £5 18s. 6d., and Insurance £2 15s. One hundred and twenty-five lamps are damaged and rendered worthless by storm, and M. Marconi receives £72 in settlement from underwriters. He sells 250 Lamps for £240, and on 4th April sends Account Sales and Bankers' Draft for balance due to the Consignors, after charging his Agency Expenses £5 10s., and Commission £15 12s. Give the Accounts as they would appear in Lux and Lucifer's Ledger.

(*West Riding of Yorkshire.*)

28. C and D buy on joint account 1,000 Mining Shares at 30s., plus expenses £10. C contributes one-third and D two-thirds of the price (all the monies passing through a Joint Banking Account). Six hundred Shares are sold at 32s. 6d., less expenses £7 5s., and 310 Shares are sold at 31s. less £5 expenses. They divided the Balance of the Shares at cost price, and also any Profit or Loss, in proportion to their original contributions. Prepare Accounts showing the position at the close of the venture. (*West Riding of Yorkshire.*)

29. Black and White entered into partnership upon equal terms as to profits or losses of the venture, for the purpose of perfecting an invention with a view to its sale to a syndicate. No interest was to be paid upon Partners' Capital prior to division of results. Black contributed £300 and White £150 to cover the cost of experiments, White giving his personal services without salary.

Upon the completion of the necessary experiments the purchases and expenses were found to have amounted to £478. Black then advanced a further £50, and White paid £22 for patent fees, etc.

The invention was sold by them to a Syndicate for £1,000 in cash, which was paid to them, and 1,000 fully paid shares of £1 each in the Syndicate, and these were duly allotted.

Upon dissolving the partnership, White arranged to take over the stock of materials at an agreed valuation of £36, and undertook to discharge outstanding liabilities (if any). Black consented to take over the 1,000 fully paid shares at an agreed valuation of £50.

Prepare the accounts necessary upon the dissolution of partnership. (*R.S.A.*)

30.

			£	s.	d.
Jan.	4.	Received from A. Lemoine, Bordeaux, invoice of wine shipped on joint account (profit or loss to be divided equally)	254	12	6
,,	7.	The shipment of wine arrived. Paid dock charges on same	4	6	2
,,	9.	Paid Custom House duties on shipment of wine	50	–	–
,,	10.	Sold to J. Carey part of the shipment of wine	138	10	6
,,	14.	Admitted J. Carey's claim for damaged goods, part of those sold him on 10th Jan.	4	8	4
,,	16.	Sold remainder of shipment of wine, for Cash	237	4	6
,,	16.	Purchased Bill on Bank of France for net proceeds, less our share of Profit. Remitted same to A. Lemoine, with account sales of the shipment.			
,,	30.	Paid claim of the purchaser of the Wine sold on 16th Jan., for damaged goods	8	3	6

Enter the above in Journal and Cash Book, and show the Joint Account and Lemoine's Account in the Ledger. (*Civil Service.*)

CHAPTER IX

SELF-BALANCING LEDGERS

To obtain a perfectly clear and really practical working knowledge of self-balancing Ledgers, the first essential is to appreciate their object and the absolute necessity for their adoption if an efficient control of a set of financial books is to be an accomplished fact.

In the study of accounts up to the point where this matter of Ledger control is introduced, a single Ledger has been used and we must, as a first step, consider the contents of this book.

When working textbook exercises, thirty or forty is, in all probability, the maximum number of accounts in use, but an analysis of these accounts will show that, irrespective of the *number*, there are only three types—

1. *Real Accounts.* Assets and liabilities, other than the Personal Accounts of Debtors and Creditors.
2. *Nominal Accounts.* All those accounts which form the Trading and Profit and Loss Accounts (excepting the Stock Account, which is included among the Assets).
3. *Personal Accounts.* Accounts of Debtors and Creditors, i.e. customers and suppliers.

Further consideration will also show that these forty or so accounts may be representative of many thousands in an actual set of books. A comparative table will illustrate this best.

	In Theory (say)	In Practice (say)
Real A/cs	6	20
Nominal A/cs	20	60
Personal A/cs—Debtors	8	10,000
Creditors	4	200
TOTAL	38	10,280

Two facts stand out from these figures. Firstly, there is a great difference between the two numbers of Personal Accounts.

Secondly, to keep such a number of accounts several Ledgers will be required.

How to allocate these accounts to a number of Ledgers and still retain elasticity in the whole set must now be considered.

LEDGER (1)

1. Real A/cs
2. Nominal A/cs
3. Personal A/cs

SALES LEDGER (2) ←— (a) Debtors
(b) Creditors ——→ BOUGHT LEDGER (3)

Containing only Personal A/cs of customers.
(The Sales A/c is *not* kept in this Ledger.)

Containing only Personal A/cs of suppliers.
(The Purchases A/c is *not* kept in this Ledger.)

If we assume Ledger 1 as representing the single Ledger that we are accustomed to handling and consider the posting that takes place, we shall see that, as this expands with the growth of the business, all the additional work falls on the Personal Accounts and by far the majority of it on the Debtors Accounts. Imagine, for instance, the posting of 100 sales. This necessitates 100 debits to the Personal Accounts of customers and *only one* credit each month to the Sales Account. Multiply this by ten, and the result will be 1,000 debits to customers but still only one credit.

As a result, Sections 1 and 2 scarcely expand at all as to the *number* of postings, whilst Section 3 grows to such an extent that other Ledgers are necessary. In consequence the Personal Accounts are taken from this Ledger, as indicated by the arrows, and housed in separate Ledgers (2 and 3), obviously the only logical method of "splitting" the original Ledger. Ledger 1 must now be given a name and is termed the "General" Ledger. In some businesses this is often further subdivided into "Private" Ledger (containing the Real Accounts), and "Nominal" or "Impersonal" Ledger (containing the Nominal Accounts), but as this does not affect the self-balancing work it will be treated throughout this book as one Ledger.

As a general average it can be assumed that a Ledger does not hold more than approximately 300 accounts. With 1,500 customers it would be necessary to have five Sales Ledgers divided more or less into the following sections of the alphabet A–D, E–H, I–L, M–R, and S–Z. With two Bought Ledgers and a General Ledger, our system of books now includes eight Ledgers in place of the single Ledger with which we started.

Assuming that the postings have been completed for the month and that a Trial Balance is required, we shall proceed exactly as always to extract Ledger and Cash Book balances, but there will be eight Ledgers instead of one.

Observe that there are no new principles involved. All books of original entry are posted as usual, but the Ledger has simply

expanded owing to additional accounts. The Trial Balance is also completed in precisely the same way as when only one Ledger is used, i.e. it consists of the balances of all Ledger Accounts and the balances of the Cash Book and Petty Cash Book.

If, on extracting a Trial Balance, it is found to agree, the extra work involved does not create any further difficulties, but, as Trial Balances have the very unhappy knack of not agreeing, it is obvious that with eight Ledgers to be searched for one or more errors, and nothing to suggest even where to look first, whole weeks may be spent before reaching agreement. This, then, is the object of self-balancing—to eliminate this uncertainty and sheer waste of time, by adopting a very simple expedient which will give us the proof as to the accuracy or otherwise of *each* Ledger separately. This being done, it will only be necessary to check those Ledgers which do not balance, the individual and independent Ledger proof localizing the errors. It may be worth noting in passing, that quite apart from localizing the errors and eliminating the search for mistakes in Ledgers which are accurate, another very important advantage is obtained from the point of view of the employer.

Where the self-balancing methods are *not* adopted, all Ledger clerks must take part in this search for the errors, including those whose work is accurate, and a dissatisfied staff must be the outcome. By proving each Ledger, on the other hand, only those clerks who have made the mistakes must work overtime to find them, and as such overtime should not be paid for it will act as an incentive to those concerned to be more accurate.

Before passing on to a more detailed consideration, it is advisable to crystallize the main points in a very few words.

Each Ledger is to have its own proof of accuracy at the end of the month. Proof of accuracy means a Trial Balance and this in its turn demands double entry. Therefore, *every* Ledger must have *complete double entry.*

Definition. A self-balancing Ledger is one whose balances, when extracted, form a complete Trial Balance. The expression "Self-balancing" Ledger is scarcely strictly accurate, but it is used as being less cumbrous than that of a Ledger "separately balanced by means of an aggregate account."

How Ledgers are made Self-Balancing. Where several Ledgers are in use, it is obvious that they will not balance of themselves, because the balances they contain will be one-sided. Thus, the Bought Ledger will comprise all *credit* balances, the Sales Ledger all *debit* balances, and so on. Ledgers have, therefore, to be made self-balancing by means of an ingenious device called, in technical phraseology, an Adjustment Account.

Adjustment Account. This is an extra account inserted at the back of a Ledger for the double purpose of proving the Ledger and

of making it self-balancing. It is merely a record of the transactions already posted in the particular Ledger, only in a summarized form instead of in detail. The debits and credits, however, are transposed. The balance of the Adjustment Account must be equal to the sum of the other balances in the same Ledger, thus proving the Ledger. It must also be on the opposite side, so that when a Trial Balance is extracted, the total of the *debits* will equal the total of the *credits*.

Principle of Proof of Adjustment Account. The principle of check underlying the Adjustment Account is proof by means of totals, based on the axiom that *the whole must be equal to the sum of all its parts*. Suppose, for example, we have the following debtors in our Ledger, and that the undermentioned sales of goods, payments, returns, etc., take place, the balances remaining in each account would be as stated at the side—

Debtors	Goods Sold	Goods Returned	Cash Received	Discount Allowed	Bills Received	Balances Owing
	£	£	£	£	£	£
Atkins, A. .	130	—	76	4	—	50
Roberts, R. .	86	3	20	—	—	63
Rufus, R. .	74	—	—	—	50	24
Philpott, P. .	59	—	38	2	—	19
Lane, L. .	42	—	19	1	—	22
Holland, H. .	106	10	20	—	36	40
Cross, C. .	78	—	57	3	—	18
Duke, D. .	34	—	10	—	—	24
	609	13	240	10	86	260

The above transactions would, of course, be posted separately to the individual accounts of each of the debtors concerned. Now let us post the same transactions in summary or total into *one* Debtors' Account and balance it. We should then have the following—

Dr. TOTAL DEBTORS' ACCOUNT *Cr.*

19..		£	19..		£
Jan. 31	To Goods	609	Jan. 31	By Returns . .	13
			„ 31	„ Cash . .	240
			„ 31	„ Discount . .	10
			„ 31	„ Bills Receivable	86
			„ 31	„ Balance c/d .	260
		£609			£609
Feb. 1	To Balance b/d .	260			

The balance of this Total Account is equal to the sum of the separate balances shown in the previous analysis, thus proving the posting, addition, subtraction, and balancing in the Ledger to be correct.

Adjustment Account for Bought Ledger. Adjustment Accounts are constructed for the Bought Ledger, and also for each of its subdivisions if there are several Bought Ledgers. All the items that have been posted in detail in the Bought Ledger must be posted in total to the Bought Ledger Adjustment Account and on the same side. For example—

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT *Cr.*

		£			£
19..			19..		
Jan. 31	To Cash . .	543	Jan. 1	By Balance (total of Creditors as at this date) .	2,607
„ 31	„ Discount .	18	„ 31	„ Purchases .	741
„ 31	„ Bills Payable .	396			
„ 31	„ Returns and Allowances .	41			
„ 31	„ Balance c/d .	2,350			
		£3,348			£3,348
			Feb. 1	By Balance b/d .	2,350

The above account would appear in the General Ledger. In the Bought Ledger there would be a corresponding account having the items on the opposite sides, in order to make a double entry by the two accounts, thus—

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

		£			£
19..			19..		
Jan. 1	To Balance (total of Creditors as at this date) .	2,607	Jan. 31	By Cash . .	543
„ 31	„ Purchases .	741	„ 31	„ Discount . .	18
			„ 31	„ Bills Payable .	396
			„ 31	„ Returns and Allowances .	41
			„ 31	„ Balance c/d .	2,350
		£3,348			£3,348
Feb. 1	To Balance b/d .	2,350			

The above balance would, of course, be equal to the sum of the separate Bought Ledger balances, and thus prove the Bought Ledger. Special items, such as transfers of contra accounts, cancelled bills, interest on renewed bills or on overdue accounts, etc., which have been posted direct from the Journal, and debited or

credited to any of the personal accounts in the Bought Ledger, must also be debited or credited to these Adjustment Accounts.

Adjustment Account for the Sales Ledger. Adjustment Accounts are constructed for the Sales Ledger, and also for each of its subdivisions if there are several Sales Ledgers. The following is an example—

Dr. SALES LEDGER ADJUSTMENT ACCOUNT *Cr.*

19..		£	19..		£
Jan. 1	To Balance (total of Debtors as at this date) .	7,416	Jan. 31	By Cash . .	3,716
,, 31	,, Sales . .	3,028	,, 31	,, Discount . .	169
,, 31	,, Cash (dishonoured bills and charges) .	54	,, 31	,, Bills Receivable	316
			,, 31	,, Returns and Allowances .	74
			,, 31	,, Bad Debts .	124
			,, 31	,, Balance c/d .	6,099
		£10,498			£10,498
Feb. 1	To Balance b/d .	6,099			

The above account would appear in the General Ledger. In the Sales Ledger there would be a corresponding account, but having the items on the opposite sides in order to make a double entry by these two accounts, thus—

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

19..		£	19..		£
Jan. 31	To Cash . .	3,716	Jan. 1	By Balance (total of Debtors as at this date) .	7,416
,, 31	,, Discount .	169	,, 31	,, Sales . .	3,028
,, 31	,, Bills Receivable	316	,, 31	,, Cash (dishonoured bill and charges). .	54
,, 31	,, Returns and Allowances .	74			
,, 31	,, Bad Debts .	124			
,, 31	,, Balance c/d .	6,099			
		£10,498			£10,498
			Feb. 1	By Balance b/d .	6,099

The above balance would, of course, be equal to the sum of the separate Sales Ledger balances, thus checking or proving the Sales Ledger. Special items, such as transfers of contra accounts, interest on renewed bills or on overdue accounts, cancelled bills, etc., which have been posted direct from the Journal, or items such as Carriage paid out on empties or returns, etc., which have been posted from the Petty Cash Book, and have been debited or credited to any of

the Personal Accounts in the Sales Ledger, must also be debited or credited to these Adjustment Accounts.

"Contra" Adjustment Accounts. Self-balancing Ledgers are merely an extension or adaptation of the former system of "Total Checking Accounts." A "Total Debtors' Account" and a "Total Creditors' Account"—now dignified with the titles of Sales Ledger Adjustment Account and Bought Ledger Adjustment Account—were kept in the General Ledger and used by the chief clerk or accountant to check the Sales Ledger and Bought Ledger balances respectively. It was quite an afterthought, and a very modern one, to copy this total account into the back of the Ledger concerned, and by transposing the debits and credits make the Ledger self-balancing.

Control Accounts. The contra Adjustment Accounts, kept at the back of the Bought and Sales Ledgers (as distinct from the Adjustment Accounts in the General Ledger), are Memorandum Accounts only, having nothing to do with the financial books as such, merely providing each Ledger Clerk with a methodical statement of the proof of his Ledger. To carry out this scheme, the books are analysed and the totals are carried into the General Ledger to form the Sales Ledger and Bought Ledger Adjustment Accounts whilst each Ledger clerk extracts the total of his own particular column from the analysis.

QUESTIONS

1. Define the term "self-balancing Ledger."
2. State briefly the object of self-balancing Ledgers.
3. What is the chief advantage of self-balancing?
4. How are Ledgers made self-balancing?
5. Explain the nature and construction of a "Control Account."
6. State briefly the principle of proof underlying the "Control Account."
7. Submit *pro forma* Control Accounts for proving the Bought Ledger.
8. Submit *pro forma* Control Accounts for proving the Sales Ledger.
9. Explain the connexion between Adjustment Accounts and Total Checking Accounts.

Rulings of Subsidiary Books. Where there are several Bought Ledgers and Sales Ledgers in use, extra columns will be required in the Purchases and Sales Books, Returns Books, Bills Books, Cash Book, etc., for the purpose of analysing the items contained therein under the respective Ledgers to which they have been posted. These columns will, of course, be in addition to the departmental columns (if any). Where, however, the number of Ledgers is very large, separate subsidiary books will be required for each Ledger. See examples on the following pages.

Perhaps the most important point to bear in mind in connexion with the analysis of the Subsidiary Books is that *every* item is

SALES BOOK

Date	Particulars	Led. Fol.	Total	Ledgers			Mantles	Dress Materials	Felts
				A–K	L–R	S–Z			
			(1)	(2)	(3)	(4)	(5)	(6)	(7)

The total of column No. 1 will be used twice—first to the credit side of the Sales Account, and then to the debit side of the Sales Ledger Adjustment Account in the General Ledger.

If departmental accounts are being kept, the totals of columns 5, 6, and 7 will be taken to their respective Sales Accounts in the General Ledger, but the total of No. 1 will still be debited to the Sales Ledger Adjustment Account.

The totals of Nos. 2, 3, and 4 will be posted to the *credit* side of the General Ledger Adjustment Accounts in the Sales Ledgers concerned.

PURCHASES BOOK

Date	Particulars	Led. Fol.	Total	Ledgers			Departments		
				Town	Country	Foreign	No. 1	No. 2	No. 3
			(1)	(2)	(3)	(4)	(5)	(6)	(7)

For the purpose of self-balancing, the total of No. 1 column will be posted to the credit of the Bought Ledger Adjustment Account in the General Ledger, and the totals of columns 2, 3, and 4 to the debit of the General Ledger Adjustment Accounts in the respective Purchases Ledgers.

BANK CASH BOOK

RECEIPTS

Dr.

Date	Particulars	Fol.	Discount	Details	Bank	Sales Ledgers		
						A–K	L–R	S–Z

PAYMENTS

Cr.

Date	Particulars	Fol.	Discount	Details	Bank	Bought Ledgers		
						A Dept.	B Dept.	C Dept.
						Town	Country	Foreign

NOTE 1. It is not essential to analyse the General Ledger items as in the worked example, although if this is not done there is no figure against which to check the cross-cast of the analysis columns. Where there are several Bought Ledgers and Sales Ledgers, the columns can be used to greater advantage as shown above.

NOTE 2. The Bought Ledger column on the Receipts side and the Sales Ledger column on the Payments side, shown in the worked example, can also be dispensed with, as the items are not very numerous, and can be easily picked out when the monthly Adjustment Accounts are constructed. But there is again the drawback mentioned above. The *full* analysis is strongly recommended even although it may necessitate the use of separate Cash Books for Receipts and Payments and in consequence a Private Cash Book to summarize them.

analysed, although only those figures affecting the Bought and Sales Ledgers are actually required for self-balancing purposes. If partial analysis only is done, there is no check on the totals of the analysis columns by the simple method of cross-casting.

Example. From the following particulars write up the Journal, Tabular Purchases Book, Sales Book, Returns Books, Bank Cash Book, Petty Cash Book, and Bills Books. Post to proper Ledgers, make them self-balancing, and extract Trial balances—

R. Retrop commenced the month with the following assets and liabilities—

19..				£	s.	d.
July	1.	Petty Cash in hand		20	–	–
„	1.	Cash at National Bank, Ltd.		1,757	13	8
„	1.	Stock-in-trade		1,756	14	8
„	1.	Bills Receivable (Nos. 120–125)		856	10	6
„	1.	A. Archer, Ltd.	*Dr.*	317	4	9
„	1.	B. Brown	*Dr.*	426	8	7
„	1.	D. Dunlop & Co.	*Dr.*	396	16	2
„	1.	Evans Bros.	*Dr.*	675	6	3
„	1.	F. Finch & Son	*Dr.*	87	1	8
„	1.	Garnet, Son & Co.	*Dr.*	219	14	4
„	1.	H. Henry	*Cr.*	430	12	10
„	1.	I. Isaacs, Ltd.	*Cr.*	361	17	5
„	1.	J. Jones & Co.	*Cr.*	212	13	9
„	1.	Korper Bros.	*Cr.*	86	8	2
„	1.	L. Lewin & Sons	*Cr.*	216	4	7
„	1.	Martin, Son & Potter	*Cr.*	76	10	8
„	1.	Outstanding Rent	*Cr.*	28	15	–
„	1.	Plant and Machinery		4,216	14	6
„	1.	Furniture and Fixtures		607	10	6
„	1.	Bills Payable (Nos. 48–50)		428	2	10

His transactions for the month were—

19..			£	s.	d.
July	2.	Bought Goods of H. Henry	217	6	5
„	3.	Bill Receivable No. 121 (accepted by F. Finch & Son) returned dishonoured	64	15	10
„	4.	Received Bill (No. 126) from A. Archer, Ltd., P. Green's Acceptance dated 2nd July at 1 month, payable at Coutts', City	301	7	6
„	4.	Discount allowed	15	17	3
„	4.	Paid Fire and Employers' Liability Insurance	15	15	–
„	5.	Sold Goods to A. Archer, Ltd.	132	3	4
„	5.	Received Cash from F. Finch & Son	65	1	4
„	5.	Paid Wages	31	4	6
„	5.	Bought National Health Insurance Stamps	10	–	–
„	5.	Cash Sales	16	16	5
„	7.	Received Cash for Bill Receivable No. 123	157	4	8
„	9.	Purchased Goods of I. Isaacs, Ltd.	84	15	2
„	9.	Received Cash from B. Brown for amount of account less 5%. Write him that we could only allow 2½%, and would carry the balance forward.			
„	10.	Bought Furniture of Ridler & Co.	100	–	–
„	11.	Accepted I. Isaac's Draft at 1 m/d (No. 51) dated 10th July	343	15	7

			£	s.	d.
July	11.	Discount allowed	18	1	10
„	11.	Paid Life Assurance Premium	10	-	-
„	12.	Sold Goods to B. Brown £424 3s. 11d., less trade discount of 25%			
„	12.	Paid Wages	34	7	9
„	12.	Sent Bill No. 120 to Bank for collection	125	-	-
„	12.	G. Goodman's Acceptance (No. 124) £125, renewed for 3 months with Interest at 5%. New Bill No. 127 payable at Bank of England, Gloucester.			
„	12.	Cash Sales	15	15	11
„	14.	Purchased Goods of L. Lewin & Sons	72	8	3
„	14.	Bill Receivable No. 120 (accepted by D. Dunlop & Co.) returned by Bank dishonoured	125	-	-
„	14.	Noting Charges paid by Bank		7	6
„	15.	D. Dunlop & Co. return damaged Goods	10	16	9
„	16.	Received Cash from D. Dunlop & Co. on A/c	200	-	-
„	16.	Bought Coal of Midland Colliery Co.	25	-	-
„	16.	Paid Carriage on same	5	10	-
„	17.	Sold Goods to D. Dunlop & Co.	97	4	2
„	17.	Paid Ridler & Co. amount of A/c less 5%			
„	18.	Renewed my Acceptance to M. Masters (No. 48), £150 for 3 months with Interest at 5%. New Bill No. 52.			
„	19.	Bought Goods of J. Jones & Co.	224	10	11
„	19.	Paid Wages	29	14	8
„	19.	Received Cash from Evans Bros. for amount of A/c as at 1st July, less 5%.			
„	19.	Cash Sales	10	12	6
„	21.	Bought of Stationery Supplies Co., Stationery	27	13	6
„	21.	Paid Korper Bros.	82	1	9
„	21.	Discount deducted 5%	4	6	5
„	22.	Returned to J. Jones & Co. Goods not up to sample	8	14	6
„	22.	F. Finch & Sons accepted our draft at 2 months, Bill No. 128, dated 20th July, payable at Lloyds, Chatham	82	14	7
„	22.	Discount allowed	4	7	1
„	22.	Sold Goods to Evans Bros.	206	13	9
„	22.	Drew for Self	50	-	-
„	23.	Purchased Goods of Korper Bros.	86	3	6
„	23.	Sent Garnet, Son & Co.'s Acceptance (No. 122) to H. Henry on a/c	200	-	-
„	23.	Bill Payable No. 49 paid by Bank	216	15	6
„	23.	Paid J. Jones & Co.	203	19	3
„	23.	Korper Bros. write and say they can allow only 2½% Discount, and will carry balance forward.			
„	24.	Cash Purchases	21	4	10
„	25.	Discounted Bill Receivable No. 125	184	10	-
„	25.	Bankers' Charge for discounting	1	10	-
„	25.	Sold Goods to F. Finch & Son	287	17	5
„	25.	Accepted L. Lewin & Son's draft at 2 m/d (Bill No. 53) in favour of N. Nash, dated 24th	210	16	6
„	25.	Discount allowed	5	8	1
„	26.	Paid Martin, Son & Potter their A/c as at 1st July, less 2½% discount.			
„	26.	Paid Wages	32	15	11
„	26.	Sold Old Plant (value in books £85) for Cash	70	-	-
„	26.	Till Takings	10	4	9
„	28.	Paid Rent to June last	28	15	-

			£	s.	d.
July	28.	Received Demand Note for Rates	17	14	6
,,	28.	Bill Receivable No. 122 (accepted by Garnet, Son & Co.) returned by H. Henry dishonoured.			
,,	28.	Noting Charges paid by him		7	6
,,	29.	Bought goods of Martin, Son & Potter, less trade discount of 10% . . . *net*	240	12	4
,,	30.	Received Cash from Garnet Son & Co.	200	7	6
,,	30.	Paid H. Henry	200	7	6
,,	31.	Sold Goods to Garnet, Son & Co.	79	5	8
,,	31.	Paid for Stationery	13	14	6
,,	31.	Paid Salaries for month	41	13	9
,,	31.	Till Takings	4	6	2

The Petty Cash is kept on the Imprest System, and the following were the transactions for the month—

19..			£	s.	d.
July	1.	Bought Stamps	1	–	–
,,	2.	Paid Carter, Paterson & Co., Charges on goods sold		3	6
,,	3.	,, Southern Railway Co. Carriage on goods bought	1	17	11
,,	3.	,, Noting Charges on dishonoured Bill, chargeable to F. Finch & Son		5	6
,,	4.	Paid for Telegrams		2	6
,,	5.	,, for Cleaning Offices		6	–
,,	7.	Bus and Tram Fares of boy		1	3
,,	8.	Printing Address Labels		10	6
,,	9.	Paid L.M. & S. Railway Carriage on goods bought	1	15	10
,,	10.	,, Carter, Paterson Charges on goods sold		2	4
,,	11.	,, London Parcels Delivery Co. Charges on goods sold		2	8
,,	12.	Paid for Cleaning Offices		6	–
,,	14.	Bought Envelopes		5	6
,,	15.	Paid Travellers' Expenses as per card		16	6
,,	16.	,, L.M. & S. Railway, Carriage on goods purchased	1	2	6
,,	17.	,, for Telegrams		1	2
,,	18.	Bought Candles and Matches			6
,,	19.	Paid for Cleaning Offices		6	–
,,	21.	Bus and Tram Fares of boy		1	–
,,	22.	Paid Parcels Delivery Co., Charges on goods sold		3	4
,,	23.	,, G.W. Railway, Charges on goods bought	1	18	6
,,	24.	Bought Tape and Sealing-wax		1	2
,,	25.	Paid for Washing Towels and Dusters		3	6
,,	26.	,, for Cleaning Offices		6	–
,,	28.	,, Pickford & Co., Charges on goods sold		3	8
,,	29.	,, for Telegrams			10
,,	29.	Bought Stamps	1	–	–
,,	30.	Paid Carriage on returned empties, chargeable to Evans Bros.		4	6
,,	31.	Paid Travellers' Expenses		10	8

PRIVATE JOURNAL

Date	Particulars				Dr. £	s.	d.	Cr. £	s.	d.
19..					£	s.	d.	£	s.	d.
July 1	Petty Cash				20	–	–			
„ 1	Bank				1,757	13	8			
„ 1	Stock				1,756	14	8			
„ 1	Bills Receivable				856	10	6			
„ 1	Sales Ledger Adjustment A/c				2,122	11	9			
	A. Archer, Ltd.	£317	4	9						
	B. Brown	426	8	7						
	D. Dunlop & Co.	396	16	2						
	Evans Bros.	675	6	3						
	F. Finch & Son	87	1	8						
	Garnet, Son & Co.	219	14	4						
„ 1	Plant and Machinery				4,216	14	6			
„ 1	Furniture and Fixtures				607	10	6			
„ 1	To Bought Ledger Adjustment A/c							1,413	2	5
	H. Henry	£430	12	10						
	I. Isaacs, Ltd.	361	17	5						
	J. Jones & Co.	212	13	9						
	Korper Bros.	86	8	2						
	L. Lewin & Sons	216	4	7						
	Martin, Son & Potter	76	10	8						
	Outstanding A/cs	28	15	–						
„ 1	„ Bills Payable							428	2	10
„ 1	„ Capital							9,496	10	4
	£				11,337	15	7	11,337	15	7
	For Sundry Assets and Liabilities as at this date.									

JOURNAL

Date	Particulars	Dr.	Cr.	Bought Ledger Dr.	Bought Ledger Cr.	Sales Ledger Dr.	Sales Ledger Cr.
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
19.. July 3	F. Finch & Son	64 15 10				64 15 10	
	To Bill Receivable		64 15 10				
	Dishonoured Bill No. 121 cancelled.						
„ 12	G. Goodman	125 – –				125 – –	
	To Bill Receivable . . .		125 – –				
	Bill No. 124 cancelled.						
„ 12	G. Goodman	1 11 3				1 11 3	
	To Interest		1 11 3				
	Interest on £125 for 3 mos. at 5%.						
„ 17	Ridler & Co.	5 – –		5 – –			
	To Furniture		5 – –				
	Discount allowed 5%.						
„ 18	Bill Payable	150 – –					
	To M. Masters		150 – –		150 – –		
	Bill No. 48 cancelled.						
„ 18	Interest	1 17 6					
	To M. Masters		1 17 6		1 17 6		
	Interest on £150 for 3 mos. at 5%.						
„ 23	H. Henry	200 – –		200 – –			
	To Bill Receivable . . .		200 – –				
	Bill No. 122 endorsed over to him.						
„ 23	Discounts Received . . .	2 3 3					
	To Korper Bros.		2 3 3		2 3 3		
	Discount deducted in error.						
	Carried forward .	550 7 10	550 7 10	205 – –	154 – 9	191 7 1	

JOURNAL (*continued*)

Date	Particulars	Dr.	Cr.	Bought Ledger Dr.	Bought Ledger Cr.	Sales Ledger Dr.	Sales Ledger Cr.
19..		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
	Brought forward	550 7 10	550 7 10	205 – –	154 – 9	191 7 1	
July 26	Loss on Sale of Plant	15 – –					
	To Plant and Machinery		15 – –				
	Loss on Sale transferred.						
" 28	Garnet, Son & Co.	200 7 6				200 7 6	
	To H. Henry		200 7 6		200 7 6		
	H. Henry's acceptance Bill No. 122 dishonoured, noting charges 7s. 6d.						
		£765 15 4	£765 15 4	£205 – –	£354 8 3	£391 14 7	

NOTE. As, in practice, Journal entries are often very few, the analysis is left until the end of the month, being entered below the totals as follows—

	Dr.	Cr.
	£ s. d.	£ s. d.
SALES LEDGER	391 14 7	
BOUGHT LEDGER	205 – –	354 8 3
GENERAL LEDGER	169 – 9	411 7 1
	£765 15 4	£765 15 4

This has the advantage that it can be checked against the totals.

BILLS RECEIVABLE BOOK

Date	No. of Bill	From Whom Received	Led. Fol.	Discount	Amount of Bill	Date of Bill	Term	Due Date
19..				£ s. d.	£ s. d.			
July 4	126	A. Archer, Ltd.		15 17 3	301 7 6	July 2	1 m/d	Aug. 5
,, 12	127	G. Goodman			126 11 3	,, 11	3 m/d	Oct. 14
,, 22	128	F. Finch & Son		4 7 1	82 14 7	,, 20	2 m/d	Sept. 23
				£20 4 4	£510 13 4			

BILLS PAYABLE BOOK

Date	No. of Bill	To Whom Given	Led. Fol.	Discount	Amount of Bill	Date of Bill	Term	Due Date
19..				£ s. d.	£ s. d.			
July 11	51	I. Isaacs, Ltd.		18 1 10	343 15 7	July 10	1 m/d	Aug. 13
,, 18	52	M. Masters			151 17 6	,, 17	3 m/d	Oct. 20
,, 25	53	L. Lewin & Sons		5 8 1	210 16 6	,, 24	2 m/d	Sept. 27
				£23 9 11	£706 9 7			

NOTE. Where Bills are more numerous or where there are several Bought and Sales Ledgers the analysis can be done at the end of the month as in the case of the Journal (see previous page).

PURCHASES BOOK

Date	Particulars	Details	Totals	Purchases	Rent, Rates, etc.	Coal	Furniture, and Fixtures	Stationery
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
19.. July 2	H. Henry— Goods		217 6 5	217 6 5				
,, 9	I. Isaacs, Ltd.— Goods		84 15 2	84 15 2				
,, 10	Ridler & Co.— Furniture		100 – –				100 – –	
,, 14	J. Lewin & Sons— Goods		72 8 3	72 8 3				
,, 16	Midland Colliery Co.— Coal		25 – –			25 – –		
,, 19	J. Jones & Co.— Goods		224 10 11	224 10 11				
,, 21	Stationery Supplies Co.— Stationery . . .		27 13 6					27 13 6
,, 23	Korper Bros.— Goods		86 3 6	86 3 6				
,, 28	Outstanding A/cs— Rates		17 14 6		17 14 6			
,, 29	Martin, Son & Potter— Goods	267 7 –						
	Less Trade Discount 10% .	26 14 8	240 12 4	240 12 4				
			£1,096 4 7	£925 16 7	£17 14 6	£25 – –	£100 – –	£27 13 6

PURCHASES RETURNS BOOK

		£ s. d.	£ s. d.
19.. July 22	J. Jones & Co.— Goods not up to sample . .		8 14 6
			£8 14 6

SALES BOOK

		£ s. d.	£ s. d.
19.. July 5	A. Archer, Ltd.— Goods		132 3 4
„ 12	B. Brown— Goods	424 3 11	
	Less Trade Discount, 25% . .	106 1 –	318 2 11
„ 17	D. Dunlop & Co.— Goods		97 4 2
„ 22	Evans Bros— Goods		206 13 9
„ 25	F. Finch & Son— Goods		287 17 5
„ 31	Garnet, Son & Co.— Goods		79 5 8
		£	1,121 7 3

SALES RETURNS BOOK

		£ s. d.	£ s. d.
19.. July 15	D. Dunlop & Co.— Goods damaged		10 16 9
			£10 16 9

BANK CASH BOOK

Dr. RECEIPTS

Date	Particulars	Discount	Details	Bank	Bought Ledger	Sales Ledger	General Ledger
19..		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
July 1	To Balance			1,757 13 8			1,757 13 8
,, 5	,, F. Finch & Son		65 1 4			65 1 4	
,, 5	,, Cash Sales		16 16 5	81 17 9			16 16 5
,, 7	,, Bill Receivable No. 123			157 4 8			157 4 8
,, 9	,, B. Brown	10 13 3		405 2 2		415 15 5	
,, 12	,, Bill Receivable No. 120		125 – –				125 – –
,, 12	,, Cash Sales		15 15 11	140 15 11			15 15 11
,, 16	,, D. Dunlop & Co.			200 – –		200 – –	
,, 19	,, Evans Bros.	33 15 4	641 10 11			675 6 3	
,, 19	,, Cash Sales		10 12 6	652 3 5			10 12 6
,, 25	,, Bill Receivable No. 125			184 10 –			184 10 –
,, 26	,, Plant		70 – –				70 – –
,, 26	,, Cash Sales		10 4 9	80 4 9			10 4 9
,, 30	,, Garnet, Son & Co.			200 7 6		200 7 6	
,, 31	,, Cash Sales			4 6 2			4 6 2
		£44 8 7		£3,864 6 –		£1,556 10 6	£2,352 4 1
Aug. 1	To Balance b/d			£2,525 16 10			£2,525 16 10

BANK CASH BOOK

PAYMENTS

Cr.

Date	Particulars	Discount	Details	Bank	Bought Ledger	Sales Ledger	General Ledger
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
19..							
July 4	By Insurance			15 15 –			15 15 –
,, 5	,, Wages			31 4 6			31 4 6
,, 5	,, Insurance Stamps			10 – –			10 – –
,, 11	,, Drawings A/c			10 – –			10 – –
,, 12	,, Wages			34 7 9			34 7 9
,, 14	,, D. Dunlop (Bill)			125 7 6		125 7 6	
,, 16	,, Coal (Carriage)			5 10 –			5 10 –
,, 17	,, Ridler & Co.			95 – –	95 – –		
,, 19	,, Wages			29 14 8			29 14 8
,, 21	,, Korper Bros.	4 6 5		82 1 9	86 8 2		
,, 22	,, Drawings A/c			50 – –			50 – –
,, 23	,, Bill Payable No. 49			216 15 6			216 15 6
,, 23	,, J. Jones & Co.			203 19 3	203 19 3		
,, 24	,, Cash Purchases			21 4 10			21 4 10
,, 25	,, Banker's Discount			1 10 –			1 10 –
,, 26	,, Martin, Son & Potter	1 18 3		74 12 5	76 10 8		
,, 26	,, Wages			32 15 11			32 15 11
,, 28	,, Outstanding Rent			28 15 –	28 15 –		
,, 30	,, H. Henry			200 7 6	200 7 6		
,, 31	,, Stationery			13 14 6			13 14 6
,, 31	,, Salaries			41 13 9			41 13 9
,, 31	,, Petty Cash			13 19 4			13 19 4
,, 31	,, Balance c/d			2,525 16 10			2,525 16 10
		£6 4 8		£3,864 6 –	£691 – 7	£125 7 6	£3,054 2 7

Dr.

PETTY CASH BOOK

Cr.

Cash Received	Date	Particulars	Total	Sundry Expenses	Postage & Telegrams	Carriage Inwards	Printing & Stationery	Travelling Expenses	Carriage Outwards	Fol.	Ledger Accounts
£ s. d.	19..		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.
20 – –	July 1	Balance b/f									
	,, 1	Stamps	1 – –		1 – –						
	,, 1	Carter, Paterson & Co.	3 6						3 6		
	,, 3	Southern Railway Co.	1 17 11			1 17 11					
	,, 3	Noting Charges on Bill (F. Finch & Son)	5 6								5 6
	,, 4	Telegrams	2 6		2 6						
	,, 5	Cleaning Offices	6 –	6 –							
	,, 7	Bus and Tram Fares	1 3	1 3							
	,, 8	Address Labels	10 6				10 6				
	,, 9	L.M. & S. Railway	1 15 10			1 15 10					
	,, 10	Carter, Paterson & Co.	2 4						2 4		
	,, 11	London Parcels Dely. Co.	2 8						2 8		
	,, 12	Cleaning Offices	6 –	6 –							
	,, 14	Envelopes	5 6				5 6				
	,, 15	Traveller's Expenses	16 6					16 6			
	,, 16	L.M. & S. Railway	1 2 6			1 2 6					
	,, 17	Telegrams	1 2		1 2						
	,, 18	Candles and Matches	6	6							
	,, 19	Cleaning Offices	6 –	6 –							
	,, 21	Bus and Tram Fares	1 –	1 –							
	,, 22	Parcels Delivery Co.	3 4						3 4		
	,, 23	Great Western Railway	1 18 6			1 18 6					
	,, 24	Tape and Sealing-wax	1 2				1 2				
	,, 25	Washing Towels and Dusters	3 6	3 6							
	,, 26	Cleaning Offices	6 –	6 –							
	,, 28	Pickford & Co.	3 8						3 8		
	,, 29	Telegrams	10		10						
	,, 29	Stamps	1 – –		1 – –						
	,, 30	Carriage on returned empties (Evans Bros.)	4 6								4 6
	,, 31	Traveller's Expenses	10 8					10 8			
			£13 19 4	£1 10 3	£2 4 6	£6 14 9	17 2	£1 7 2	15 6		10 –
13 19 4	,, 31	Cheque C.B.		G.L.	G.L.	G.L.	G.L.	G.L.	G.L.		
	,, 31	Balance c/d	20 – –								
£33 19 4			£33 19 4								
20 – –	Aug. 1	Balance b/d									

BOUGHT OR CREDITORS' LEDGER

H. HENRY

Dr.									Cr.
		£	s.	d.			£	s.	d.
19.. July 23	To Bills Receivable	200	–	–	19.. July 1	By Balance	430	12	10
,, 30	,, Cash	200	7	6	,, 2	,, Goods	217	6	5
					,, 28	,, Garnet, Son & Co.	200	7	6

KORPER BROS.

Dr.									Cr.
		£	s.	d.			£	s.	d.
19.. July 21	To Cash	82	1	9	19.. July 1	By Balance	86	8	2
,, 21	,, Discount	4	6	5					
		£86	8	2			£86	8	2
					July 23	By Discount	2	3	3
					,, 23	,, Goods	86	3	6

I. ISAACS, LTD.

Dr.									Dr.
		£	s.	d.			£	s.	d.
19.. July 11	To Bills Payable	343	15	7	19.. July 1	By Balance	361	17	5
,, 11	,, Discount	18	1	10	,, 9	,, Goods	84	15	2

J. JONES & CO.

Dr.									Cr.
		£	s.	d.			£	s.	d.
19.. July 22	To Returns	8	14	6	19.. July 1	By Balance	212	13	9
,, 23	,, Cash	203	19	3	,, 19	,, Goods	224	10	11

L. LEWIN & SONS

Dr.									Cr.
		£	s.	d.			£	s.	d.
19.. July 25	To Bills Payable	210	16	6	19.. July 1	By Balance	216	4	7
,, 25	,, Discount	5	8	1	,, 14	,, Goods	72	8	3

MARTIN, SON & POTTER

Dr.									Cr.
		£	s.	d.			£	s.	d.
19.. July 26	To Cash	74	12	5	19.. July 1	By Balance	76	10	8
,, 26	,, Discount	1	18	3					
		£76	10	8			£76	10	8
					July 29	By Goods	240	12	4

M. MASTERS

Dr.									Cr.
		£	s.	d.			£	s.	d.
19.. July 18	To Bills Payable	151	17	6	19.. July 18	By Bills Payable	150	–	–
					,, 18	,, Interest	1	17	6
		£151	17	6			£151	17	6

MIDLAND COLLIERY CO.

Dr.									Cr.
							£	s.	d
					19.. July 16	By Coal	25	–	–

Dr. STATIONERY SUPPLIES CO. Cr.

			19..		£ s. d.
			July 21	By Stationery	27 13 6

Dr. RIDLER & CO. Cr.

19..		£ s. d.	19..		£ s. d.
July 17	To Cash	95 – –	July 10	By Furniture	100 – –
,, 17	,, Furniture	5 – –			
		£100 – –			£100 – –

Dr. OUTSTANDING ACCOUNTS Cr.

19..		£ s. d.	19..		£ s. d.
July 28	To Cash	28 15 –	July 1	By Balance	28 15 –
			July 28	By Rates, etc.	17 14 6

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT Cr.

19..		£ s. d.	19..		£ s. d.
July 1	To Balance	1,413 2 5	July 31	By Returns	8 14 6
,, 31	,, Goods	1,096 4 7	,, 31	,, Cash & Discount	691 – 7
,, 31	,, Transfers as per Journal	354 8 3	,, 31	,, Bills Payable	706 9 7
			,, 31	,, Discount	23 9 11
			,, 31	,, Transfers as per Journal	205 – –
			,, 31	,, Balance c/d	1,229 – 8
	£	2,863 15 3		£	2,863 15 3
Aug. 1	To Balance b/d	1,229 – 8			

SALES OR DEBTORS' LEDGER

Dr. A. ARCHER, LTD. Cr.

19..		£ s. d.	19..		£ s. d.
July 1	To Balance	317 4 9	July 4	By Bills Receivable	301 7 6
			,, 4	,, Discount	15 17 3
		£317 4 9			£317 4 9
July 5	To Goods	132 3 4			

Dr. B. BROWN Cr.

19..		£ s. d.	19..		£ s. d.
July 1	**To Balance**	426 8 7	July 9	By Cash	405 2 2
			,, 9	,, Discount	10 13 3
			,, 9	,, Balance c/d	10 13 2
		£426 8 7			£426 8 7
July 9	To Balance b/d	10 13 2			
,, 12	,, Goods	318 2 11			

Dr. D. DUNLOP & CO. Cr.

19..		£ s. d.	19..		£ s. d.
July 1	To Balance	396 16 2	July 15	By Returns	10 16 9
,, 14	,, Cash (dishonoured bill)	125 7 6	,, 16	,, Cash	200 – –
,, 17	,, Goods	97 4 2			

Dr. EVANS BROS. *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 1	To Balance . .	675	6	3	July 19	By Cash . . .	641	10	11
					,, 19	,, Discount . .	33	15	4
		£675	6	3			£675	6	3
July 22	To Goods . . .	206	13	9					
,, 30	,, Petty Cash . .		4	6					

Dr. F. FINCH & SON *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 1	To Balance . .	87	1	8	July 5	By Cash . . .	65	1	4
,, 3	,, Bill Rec. (dishonoured) . .	64	15	10	,, 22	,, Bill Receivable .	82	14	7
,, 5	,, Petty Cash . .		5	6	,, 22	,, Discount . .	4	7	1
		£152	3	–			£152	3	–
July 23	To Goods . . .	287	17	5					

Dr. GARNET, SON & CO. *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 1	To Balance . .	219	14	4	July 30	By Cash . . .	200	7	6
,, 28	,, H. Henry . .	200	7	6					
,, 31	,, Goods . . .	79	5	8					

Dr. G. GOODMAN *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 12	To Bill Receivable .	125	–	–	July 14	By Bill Receivable .	126	11	3
,, 12	,, Interest . .	1	11	3					
		£126	11	3			£126	11	3

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 31	To Cash and Discount .	1,556	10	6	July 1	By Balance . .	2,122	11	9
,, 31	,, Returns . .	10	16	9	,, 31	,, Cash (dishonoured bill) . .	125	7	6
,, 31	,, Bills Receivable .	510	13	4	,, 31	,, Transfer as per Journal . .	391	14	7
,, 31	,, Discount . .	20	4	4	,, 31	,, Goods . . .	1,121	7	3
,, 31	,, Balance c/d . .	1,663	6	2	,, 31	,, Petty Cash . .		10	–
	£	3,761	11	1		£	3,761	11	1
					Aug. 1	By Balance b/d . .	1,663	6	2

IMPERSONAL OR GENERAL LEDGER

Dr. STOCK *Cr.*

19..		£	s.	d.					
July 1	To Balance . .	1,756	14	8					

Dr. PLANT AND MACHINERY *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 1	To Balance . .	4,216	14	6	July 26	By Cash . . .	70	–	–
					,, 26	,, Loss on Sale .	15	–	–

Dr. FURNITURE AND FIXTURES Cr.

		£	s.	d.			£	s.	d.
19..					19..				
July 1	To Balance . .	607	10	6	July 17	By Ridler & Co. .	5	–	–
„ 31	„ Sundry Crs. . .	100	–	–					

Dr. BILLS PAYABLE Cr.

		£	s.	d.			£	s.	d.
19..					19..				
July 18	To M. Masters . .	150	–	–	July 1	By Balance . .	428	2	10
„ 23	„ Cash . . .	216	15	6	„ 31	„ Sundry Crs. . .	706	9	7

Dr. BILLS RECEIVABLE Cr.

		£	s.	d.			£	s.	d.
19..					19..				
July 1	To Balance . .	856	10	6	July 3	By Finch & Son .	64	15	10
					„ 7	„ Cash . . .	157	4	8
					„ 12	„ „ . . .	125	–	–
					„ 12	„ G. Goodman .	125	–	–
					„ 23	„ H. Henry . .	200	–	–
					„ 25	„ Cash . . .	184	10	–
		£856	10	6			£856	10	6
July 31	To Sundry Drs. . .	510	13	4					

Dr. PURCHASES Cr.

		£	s.	d.					
19..									
July 24	To Cash . . .	21	4	10					
„ 31	„ Sundry Crs. . .	925	16	7					

Dr. PURCHASES RETURNS AND ALLOWANCES Cr.

							£	s.	d.
					19..				
					July 31	By Sundry Crs. . .	8	14	6

Dr. SALARIES Cr.

		£	s.	d.					
19..									
July 31	To Cash . . .	41	13	9					

Dr. SALES Cr.

							£	s.	d.
					19..				
					July 5	By Cash . . .	16	16	5
					„ 12	„ „ . . .	15	15	11
					„ 19	„ „ . . .	10	12	6
					„ 26	„ „ . . .	10	4	9
					„ 31	„ „ . . .	4	6	2
					„ 31	„ Sundry Drs. . .	1,121	7	3

Dr. SALES RETURNS AND ALLOWANCES Cr.

		£	s.	d.					
19..									
July 31	To Sundry Drs. . .	10	16	9					

Dr. WAGES Cr.

19..		£	s.	d.					
July 5	To Cash . . .	31	4	6					
,, 12	,, ,, . . .	34	7	9					
,, 19	,, ,, . . .	29	14	8					
,, 26	,, ,, . . .	32	15	11					

Dr. HEALTH INSURANCE STAMPS Cr.

19..		£	s.	d.					
July 5	To Cash . . .	10	–	–					

Dr. INSURANCE Cr.

19..		£	s.	d.					
July 4	To Cash . . .	15	15	–					

Dr. RENT, RATES, AND TAXES Cr.

19..		£	s.	d.					
July 31	To Sundry Crs. . .	17	14	6					

Dr. PRINTING AND STATIONERY Cr.

19..		£	s.	d.					
July 31	To Cash . . .	13	14	6					
,, 31	,, Sundry Crs. . .	27	13	6					
,, 31	,, Petty Cash . .		17	2					

Dr. COAL Cr.

19..		£	s.	d.					
July 16	To Cash (Carriage) .	5	10	–					
,, 31	,, Sundry Crs. . .	25	–	–					

Dr. LOSS ON SALE OF PLANT Cr.

19..		£	s.	d.					
July 26	To Plant and Machinery	15	–	–					

Dr. DISCOUNTS ALLOWED Cr.

19..		£	s.	d.					
July 31	To Sundry Drs. .	44	8	7					
,, 31	,, ,, . .	20	4	4					

Dr. DISCOUNTS RECEIVED Cr.

19..		£	s.	d.	19..		£	s.	d.
July 23	To Korper Bros. . .	2	3	3	July 31	By Sundry Crs. . .	6	4	8
					,, 31	,, ,, . .	23	9	11

Dr. BANKER'S DISCOUNT Cr.

19..		£	s.	d.					
July 25	To Cash . . .	1	10	–					

Dr. INTEREST RECEIVABLE Cr.

			19.. July 12	By G. Goodman .	£ 1 s. 11 d. 3

Dr. INTEREST PAYABLE Cr.

19.. July 18	To M. Masters . .	£ 1 s. 17 d. 6			

Dr. POSTAGE AND TELEGRAMS Cr.

19.. July 31	To Petty Cash . .	£ 2 s. 4 d. 6			

Dr. CARRIAGE INWARDS Cr.

19.. July 31	To Petty Cash . .	£ 6 s. 14 d. 9			

Dr. TRAVELLING EXPENSES Cr.

19.. July 31	To Petty Cash . .	£ 1 s. 7 d. 2			

Dr. CARRIAGE OUTWARDS Cr.

19.. July 31	To Petty Cash . .	£ s. 15 d. 6			

Dr. SUNDRY EXPENSES Cr.

19.. July 31	To Petty Cash . .	£ 1 s. 10 d. 3			

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) Cr.

		£	s.	d.			£	s.	d.
19.. July 31	To Returns . .	8	14	6	19.. July 1	By Balance . .	1,413	2	5
„ 31	„ Cash and Discount .	691	–	7	„ 31	„ Goods . . .	1,096	4	7
„ 31	„ Bills Payable . .	706	9	7	„ 31	„ Transfers as per Journal . .	354	8	3
„ 31	„ Discount . .	23	9	11					
„ 31	„ Transfers as per Journal . .	205	–	–					
„ 31	„ Balance c/d . .	1,229	–	8					
	£	2,863	15	3		£	2,863	15	3
					Aug. 1	By Balance b/d . .	1,229	–	8

Dr. SALES LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) Cr.

		£	s.	d.			£	s.	d.
19.. July 1	To Balance . .	2,122	11	9	19.. July 31	By Cash and Discount	1,556	10	6
„ 31	„ Cash (dishonoured bill) . .	125	7	6	„ 31	„ Returns . .	10	16	9
„ 31	„ Transfers as per Journal . .	391	14	7	„ 31	„ Bills Receivable .	510	13	4
„ 31	„ Goods . . .	1,121	7	3	„ 31	„ Discount . .	20	4	4
„ 31	„ Petty Cash . .		10	–	„ 31	„ Balance c/d . .	1,663	6	2
	£	3,761	11	1		£	3,761	11	1
Aug. 1	To Balance b/d . .	1,663	6	2					

PRIVATE LEDGER

Dr. CAPITAL *Cr.*

			19.. July 1	By Balance . .	£ s. d. 9,496 10 4

Dr. DRAWINGS *Cr.*

19.. July 11 „ 22	To Cash . . . „ „ . . .	£ s. d. 10 - - 50 - -			

TRIAL BALANCE (BOUGHT LEDGER), 31st July, 19..

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
I. Isaacs, Ltd.				84	15	2
H. Henry				447	19	3
J. Jones & Co.				224	10	11
Korper Bros.				88	6	9
L. Lewin & Sons				72	8	3
Martin, Son & Potter . . .				240	12	4
Midland Colliery Co. . . .				25	-	-
Stationery Supplies Co. . . .				27	13	6
Outstanding A/cs				17	14	6
General Ledger Adjustment A/c. .	1,229	-	8			
	£1,229	-	8	£1,229	-	8

TRIAL BALANCE (SALES LEDGER), 31st July, 19..

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
A. Archer, Ltd.	132	3	4			
B. Brown	328	16	1			
D. Dunlop & Co.	408	11	1			
Evans Bros.	206	18	3			
F. Finch & Son	287	17	5			
Garnet, Son & Co.	299	-	-			
General Ledger Adjustment A/c .				1,663	6	2
	£1,663	6	2	£1,663	6	2

TRIAL BALANCE (GENERAL LEDGER), 31st July, 19..

		£ s. d.	£ s. d.
	Stock	1,756 14 8	
	Plant and Machinery	4,131 14 6	
	Furniture and Fixtures	702 10 6	
	Bills Payable		767 16 11
	,, Receivable	510 13 4	
	Purchases	947 1 5	
	,, Returns and Allowances		8 14 6
	Salaries	41 13 9	
	Sales		1,179 3 -
	,, Returns and Allowances	10 16 9	
	Wages	128 2 10	
	Health Insurance Stamps	10 - -	
	Insurance	15 15 -	
	Rent, Rates, and Taxes	17 14 6	
	Printing and Stationery	42 5 2	
	Coal	30 10 -	
	Loss on Sale of Plant	15 - -	
	Discounts Allowed	64 12 11	
	,, Received		27 11 4
	Banker's Discount	1 10 -	
	Interest Receivable		1 11 3
	,, Payable	1 17 6	
	Postage and Telegrams	2 4 6	
	Carriage Inwards	6 14 9	
	Travelling Expenses	1 7 2	
	Carriage Outwards	15 6	
	Sundry Expenses	1 10 3	
	Bought Ledger Adjustment A/c[1]		1,229 - 8
	Sales Ledger Adjustment A/c[2]	1,663 6 2	
P.L.	Capital A/c		9,496 10 4
	Drawings A/c	60 - -	
C.B.	Cash at Bank	2,525 16 10	
P.C.B.	Petty Cash in Hand	20 - -	
		£12,710 8 -	£12,710 8 -

[1] On the Balance Sheet this item will appear as Sundry Creditors.
[2] On the Balance Sheet this item will appear as Sundry Debtors.

Procedure where there are Several Purchases and Sales Ledgers. In large concerns where there are several Purchases and Sales Ledgers in use, the system of having separate columns for each Ledger in each of the subsidiary books cannot conveniently be adopted, as the numerous rulings required would render the books too cumbersome. The subsidiary books, however, are ruled with departmental columns where such are necessary. Separate analysis sheets or books are provided, in which the £ s. d. amounts on each page of the subsidiary books, and also the Cash Book, are dissected and placed in their proper column. To facilitate such dissection the various Ledgers are provided with a special distinguishing mark or letter, which is inserted in the folio column of

the subsidiary book when the item is posted into its particular Ledger. Thus, items in Ledger No. 1 would, when posted, have the figure 1 prefixed to the folio; items in Ledger No. 2 would, when posted, have the figure 2 prefixed to the folio, and so on. The analytical columns are totalled horizontally and vertically, in order, by means of cross casts, to serve as a check on the analysis itself. The vertical total, at the finish, must also agree with the periodical total of the book so analysed. The totals of the various sheets are then copied into a Summary Book, and the Adjustment Accounts duly made. Separate Adjustment Accounts can, if desired, be prepared for each Ledger, or the whole lot may be constructed in tabular form. The combined total of the balances of the Adjustment Accounts provides the total amount of Debtors and Creditors for the Balance Sheet. The subjoined *pro forma* rulings and figures should be carefully followed by the student, as they illustrate fully and clearly the procedure outlined above.

ANALYSIS OF DAY OR SALES BOOK

Sales Ledgers								Total
1	2	3	4	5	6	7	8	
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
16 15 3			27 19 8			54 3 5		98 18 4
	26 1 7	16 1 7		29 14 8	78 9 7		32 14 11	183 2 4
				etc.				
				etc.				
317 4 5	326 9 2	234 10 6	198 3 7	84 11 1	356 13 9	208 2 10	276 12 2	2002 7 6

ANALYSIS OF SALES RETURNS BOOK

Sales Ledgers								Total
1	2	3	4	5	6	7	8	
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
5 1 6		4 8 8			13 1 7		12 2 6	34 14 3
	11 2 7		3 4 9	2 6 10		4 1 11		20 16 1
				etc.				
				etc.				
20 10 8	14 3 9	15 1 6	10 2 5	12 1 9	24 2 8	17 5 7	15 6 10	128 15 2

ANALYSIS OF BILLS RECEIVABLE BOOK

Sales Ledgers								Total
1	2	3	4	5	6	7	8	
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
65 11 4		83 1 9		56 2 4			39 14 11	244 10 4
	62 19 8		75 4 3		29 2 6	35 15 8		203 2 1
				etc.				
				etc.				
94 16 8	112 4 7	116 10 9	124 3 8	107 4 2	58 10 5	76 14 11	105 3 8	795 8 10

ANALYSIS OF TRANSFERS (DEBITS)

Sales Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
	17 1 6			14 3 8			19 2 11	50 8 1
		10 1 6			15 4 9			25 6 3
				etc.				
				etc.				
10 1 6	24 9 8	15 11 2	20 1 7	52 3 7	15 4 9	26 4 7	28 4 3	192 1 1

ANALYSIS OF TRANSFERS (CREDITS)

Sales Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
4 5 6			11 2 9			17 4 7		32 12 10
	5 11 8				10 2 7		6 1 3	21 15 6
				etc.				
				etc.				
19 2 11	18 1 6	4 7 7	21 4 8	5 6 11	25 13 9	21 9 10	17 4 8	132 11 10

ANALYSIS OF BOUGHT OR PURCHASES BOOK

Bought Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
76 4 8		59 10 11		112 2 7			36 11 9	284 9 11
	110 4 2		56 7 2		28 13 5	76 1 9		271 6 6
				etc.				
				etc.				
198 3 11	285 4 2	287 6 3	202 9 10	291 18 5	219 10 6	259 4 5	287 6 10	2031 4 4

ANALYSIS OF PURCHASES RETURNS BOOK

Bought Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
4 3 7			5 8 9	10 1 2		6 2 3		25 15 9
	7 5 4	2 18 6			5 3 7		3 15 4	19 2 9
				etc.				
				etc.				
27 1 6	12 3 9	15 1 7	24 3 9	37 13 6	29 1 11	19 6 8	25 11 7	190 4 3

ANALYSIS OF BILLS PAYABLE BOOK

Bought Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
27 13 2			25 10 7		16 4 11		25 9 8	94 18 4
	19 14 6	27 10 8		34 3 5		29 18 6		111 7 1
				etc.				
				etc.				
87 3 9	65 12 2	76 4 3	89 9 5	101 4 2	96 2 8	105 4 10	73 16 5	694 17 8

ANALYSIS OF TRANSFERS (DEBITS)

Bought Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
2 3 5		1 4 9		2 11 3		1 15 9		7 15 2
	3 4 8		2 19 10		1 17 6		2 1 10	10 3 10
				etc.				
				etc.				
8 7 3	9 1 6	4 11 8	36 2 9	18 5 9	4 14 10	5 12 2	30 3 9	116 19 8

ANALYSIS OF TRANSFERS (CREDITS)

Bought Ledgers								
1	2	3	4	5	6	7	8	Total
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
10 2 7	4 15 9			6 1 7		4 3 7		25 3 6
		2 9 8	1 13 7		1 17 4		1 15 6	7 16 1
				etc.				
				etc.				
17 2 9	12 1 6	4 11 9	1 13 7	5 9 10	12 11 3	7 15 6	4 13 8	65 19 10

NOTE. For analysis of Cash Book, see page 311.

Sectional Balancing. It should be noted that this term is applied by some accountants to the Self-Balancing principle as adopted by those firms that balance their Ledgers in groups instead of separately, two or three Ledgers often forming a group.

Contra Account. By this term is meant that we have both bought from, and sold to, the same person; and that while he is our *debtor* for the goods we have sold to him, and his account appears in the Sales Ledger, yet he is also our *creditor* for the goods we have bought from him, and his other account, called the "contra" account, appears in the Bought Ledger. In some cases the person

Dr. SALES LEDGER ADJUST-

PARTICULARS	Ledgers																									Total		
	1			2			3			4			5			6			7			8					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Bal. 1 Jan. . .	578	1	6	597	4	3	686	15	7	706	2	9	795	14	2	611	10	5	706	2	9	656	11	5	5338	2	10
,, Goods . . .	317	4	5	326	9	2	234	10	6	198	3	7	84	11	1	356	13	9	208	2	10	276	12	2	2002	7	6
,, Cash (dishonoured Bills) . . .							170	11	9										155	9	11				326	1	8
,, Transfers . .	10	1	6	24	9	8	15	11	2	20	1	7	52	3	7	15	4	9	26	4	7	28	4	3	192	1	1
	905	7	5	948	3	1	1107	9	–	924	7	11	932	8	10	983	8	11	1096	–	1	961	7	10	7858	13	1
To Bal. 1 Feb. . .	492	8	–	547	1	6	758	9	4	500	13	4	629	6	10	618	7	6	692	13	7	526	17	–	4765	17	1

Left-hand side]

MENT ACCOUNTS

Cr.

Particulars	Ledgers																								Total		
	1			2			3			4			5			6			7			8					
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Cash and Discount	278	9	2	256	11	9	212	19	10	268	3	10	178	9	2	256	14	7	287	16	2	296	15	8	2036	–	2
,, Bills Receivable and Disct.	94	16	8	112	4	7	116	10	9	124	3	8	107	4	2	58	10	5	76	14	11	105	3	8	795	8	10
,, Returns	20	10	8	14	3	9	15	1	6	10	2	5	12	1	9	24	2	8	17	5	7	15	6	10	128	15	2
,, Transfers	19	2	11	18	1	6	4	7	7	21	4	8	5	6	11	25	13	9	21	9	10	17	4	8	132	11	10
,, Bal. 31 Jan.	492	8	–	547	1	6	758	9	4	500	13	4	629	6	10	618	7	6	692	13	7	526	17	–	4765	17	1
	905	7	5	948	3	1	1107	9	–	924	7	11	932	8	10	983	8	11	1096	–	1	961	7	10	7858	13	1

[*Right-hand side*

concerned insists on the accounts being treated separately, and will not have one set off against the other. In other cases, settlement is effected by deducting one account from the other, and paying, or being paid, only the balance, according as the latter is due by us or to us. Hence the smaller account must be transferred to the greater, either the Bought Ledger Account to the Sales Ledger Account, or the Sales Ledger Account to the Bought Ledger Account as the case may be. These transfers must be passed through the Journal and analysed into their proper columns, so that the Adjustment Accounts may be correctly constructed; for all such transfers must be recorded therein.

Contra Balances in Ledgers. Strictly speaking, the Bought Ledger should contain all *credit* balances, and the Sales Ledger all *debit* balances, yet in practice it sometimes happens that in some of the Bought Ledger accounts there are sundry small *debit* balances, and also that in the Sales Ledger accounts there are sundry small *credit* balances. Take the case of the Sales Ledger. Accounts often include charges for packages. An account is settled in cash, and subsequently when the packages are empty they are returned and have to be credited. At balancing time there may be no debit in the account to offset this credit. Mistakes are occasionally found after accounts have been settled, and their rectification sometimes involves the crediting of such accounts with a certain amount. These small credit balances are sometimes deducted from the total Debtors, and only the net amount of the Debtors shown in the Balance Sheet. And likewise with the Bought Ledger, the total of the small debit balances appearing in it is sometimes deducted from the Creditors, and only the net amount of the Creditors shown in the Balance Sheet. Some accountants, however, object to this on principle. In the Adjustment Accounts, therefore, they bring down both debit and credit balances, and also show them on the Balance Sheet. For example, suppose the Bought Ledger balances to amount to £3,465 15s. 8d. after deducting £9 14s. 10d., the total of sundry *debit* balances therein, and the Sales Ledger balances to amount to £8,457 10s. 11d. after deducting £5 6s. 8d., the total of sundry *credit* balances therein, the Adjustment Accounts in the General Ledger would appear as follows—

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Balance . .	9 14 10	19.. Jan. 1	By Balance . .	3,475 10 6

Dr. SALES LEDGER ADJUSTMENT ACCOUNT (OR CONTROL ACCOUNT) *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Balance . .	8,462 17 7	19.. Jan. 1	By Balance . .	5 6 8

Cr.

Particulars	Ledgers 1			2			3			4			5			6			7			8			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Bal. 1 Jan.	346	5	2	297	11	8	516	7	10	493	2	11	385	6	11	493	5	8	516	6	9	381	15	2	3430	2	1
,, Goods	198	3	11	285	4	2	287	6	3	202	9	10	291	18	5	219	10	6	259	4	5	287	6	10	2031	4	4
,, Cash				5	10	6							2	1	7				2	10	10				10	2	11
,, Transfers	17	2	9	12	1	6	4	11	9	1	13	7	5	9	10	12	11	3	7	15	6	4	13	8	65	19	10
	561	11	10	600	7	10	808	5	10	697	6	4	684	16	9	725	7	5	785	17	6	673	15	8	5537	9	2
By Bal. 1 Feb.	241	13	10	270	19	8	495	17	11	368	19	3	292	11	6	425	11	6	448	-	1	348	8	7	2892	2	4

[*Right-hand side*

And the Balance Sheet would be as under—

BALANCE SHEET

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.	£ s. d.
Sundry Creditors as per Bought Ledger	3,475 10 6		Sundry Debtors as per Sales Ledger .	8,462 17 7	
Add Sundry Cr. bal. in Sales Ledger .	5 6 8		*Add* Sundry Dr. bal. in Bought Ledger . .	9 14 10	
		3,480 17 2			8,472 12 5

Under the other method it would appear—

BALANCE SHEET

Liabilities		£ s. d.	*Assets*		£ s. d.
Sundry Creditors .		3,465 15 8	Sundry Debtors .		8,457 10 11

As can be seen, the final result in each case is a *net* debit of £4,991 15s. 3d., so that the double entry is not affected in any way. But by the two balances method we show the true financial position, i.e. the *exact* amount of Debtors and Creditors. And this is the avowed reason for its adoption.

QUESTIONS

1. Submit rulings of the Purchases and Sales Books where the nature of the business necessitates departmental analysis as well as self-balancing ledgers.
2. Submit rulings of a Cash Book suitable for a business that divides its ledgers into sections (*a*) alphabetically, (*b*) departmentally.
3. Submit *pro forma* Journal entries for constructing the Adjustment Accounts relative to the Bought Ledger.
4. Submit *pro forma* Journal entries for constructing the Adjustment Accounts relative to the Sales Ledger.
5. Supposing there are several small *debit* balances in the Bought Ledger, how should they be treated in preparing the Adjustment Account?
6. Supposing there are sundry small *credit* balances in the Sales Ledger, how will they affect the preparation of the Adjustment Account?
7. How will personal items in the Petty Cash Book affect the Adjustment Accounts?
8. How are *contra* accounts in the Bought Ledger dealt with when preparing the Sales Ledger Adjustment Accounts?
9. What is meant by a "Special Transfer Journal" for use with self-balancing Ledgers? Submit *pro forma* ruling of such a book, and explain the method of procedure in connexion therewith.
10. When the number of Ledgers in use is too large for analytical columns to be provided in the Cash and subsidiary books, how is the material for Adjustment Accounts obtained?

Private Ledger. It will be noticed in the worked example that the Private Ledger contains only the Capital and Drawings Accounts.

In practice, however, this Ledger, which is provided with a lock and key and is sometimes kept by the chief clerk or accountant who occupies a confidential post, often includes other accounts of a private nature, such as Loans, and in some cases the Bank balance, and the Stock. Without knowing the value of the Stock at the commencement and at the end of a period, it would be impossible for any clerk to arrive at the gross or net profit, even though he had access to all the other information. An earlier method of division of accounts, which is still to be found in many businesses, is to keep all the Nominal and Real Accounts in the Private Ledger. Another method is to keep all the Expense Accounts in a Nominal Ledger, and to put all the Real or Property Accounts, e.g. Plant and Machinery, Bills, Stock, etc., into the Private Ledger. The modern tendency, however, is to group both the Nominal and Real Accounts into one General or Impersonal Ledger.

Private Ledger Account. Where it is not desired that any clerk shall have access to the Private Ledger, an Adjustment Account, called Private Ledger Account, is opened at the end of the General Ledger, and credited with the net balance of all the accounts in the Private Ledger. All items that should be posted to the Private Ledger are then debited or credited to the Private Ledger Account instead. The balance of the Private Ledger Account thus enables the Trial Balance to be completed without reference to the Private Ledger itself. At balancing time the professional accountant, who makes up the Profit and Loss Account and Balance Sheet, analyses the Private Ledger Account and posts the details to the proper accounts in the Private Ledger. He closes the Private Ledger Account for the past period by writing "*To Transfer to Private Ledger*," and re-opens it by writing "*By Balance*" the net amount for the new period.

The following example will serve as an illustration of the above procedure—

In General Ledger

Dr. PRIVATE LEDGER ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Feb. 15	To Cash	100	–	–	Jan. 1	By Balance	2,175	2	6
Apr. 20	,, ,,	100	–	–	June 30	,, Cash	1,000	–	–
June 25	,, ,,	100	–	–	Dec. 31	,, Cash Book totals	6,792	14	3
Sept. 17	,, ,,	100	–	–	,, 31	,, Interest	275	–	–
Nov. 20	,, ,,	100	–	–					
Sept. 25	,, ,, (R. Brown)	500	–	–					
Dec. 31	,, Cash Book totals	7,597	16	5					
,, 31	,, Transfer to Private Ledger	1,645	–	4					
	£	10,242	16	9		£	10,242	16	9
					Jan. 1	By Balance	2,834	19	11

In Private Ledger

Dr. BANK *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Balance	1,200 – –	19.. Jan. to Dec.	By Cash Book totals	6,792 14 3
Jan. to Dec.	,, Cash Book totals	7,597 16 5	Dec. 31	,, Balance c/d	2,005 2 2
		£8,797 16 5			£8,797 16 5
19.. Jan. 1	To Balance b/d	2,005 2 2			

Dr. LOAN FROM R. BROWN *Cr.*

		£ s. d.			£ s. d.
19.. Sept. 25	To Cash	500 – –	19.. Jan. 1	By Balance	1,000 – –
Dec. 31	,, Balance c/d.	500 – –			
		£1,000 – –			£1,000 – –
			19.. Jan. 1	By Balance b/d	500 – –

Dr. DRAWINGS *Cr.*

		£ s. d.			£ s. d.
19.. Jan. to Dec.	To Cash	500 – –	19.. Dec. 31	By Capital A/c	500 – –

Dr. STOCK *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Balance	2,624 17 6	19.. Dec. 31	By Trading A/c	2,624 17 6
Dec. 31	To Trading A/c	2,289 15 5			

Dr. CAPITAL *Cr.*

		£ s. d.			£ s. d.
19.. Dec. 31	To Drawings A/c	500 – –	19.. Jan. 1	By Balance	5,000 – –
,, 31	,, Balance c/d.	6,629 17 6	June 30	,, Cash	1,000 – –
			Dec. 31	,, Interest	275 – –
			,, 31	,, Profit and Loss	854 17 6
		£7,129 17 6			£7,129 17 6
			19.. Jan. 1	By Balance b/d	6,629 17 6

QUESTIONS

1. What restricted meaning is sometimes applied to the term "sectional balancing"? What advantages and disadvantages are there with regard to the procedure comprehended under this restricted meaning?
2. What is meant by the term "*contra* account"?
3. How are *contra* accounts usually settled? What exceptions are there?

4. How does the transfer of *contra* accounts affect the Adjustment Accounts for the Bought and Sold Ledgers respectively? Should such transfers be made direct from one Ledger account to the other? Give reasons for your answer.

5. How are the sundry *debit* balances in a Bought Ledger, and the sundry *credit* balances in a Sales Ledger, sometimes shown in the Balance Sheet, and why? Give examples. How do such balances arise?

6. What differences of opinion exist in practice with regard to the question as to what accounts should be kept in the Private Ledger?

7. What is the modern tendency with regard to the ledgering of Nominal and Real Accounts?

8. How can the Bank Balance be kept from the knowledge of the staff? Why is the Stock Account sometimes kept in the Private Ledger?

9. Explain how a set of books may be kept and balanced by means of a monthly trial balance without giving the book-keeper access to the Private Ledger.

10. Give an example of the working of a Private Ledger Account in the General Ledger, and show the corresponding accounts in the Private Ledger.

EXERCISE IX

1. What do you understand by the "sectional" system of balancing Ledgers?

In the business of X, Y, Z & Co., the following books are in use: 1 "Bought" Ledger, 2 "Sold" Ledgers ("Town "and "Country"), 1 "Private and Nominal" Ledger, 1 "Bank" Cash Book, 1 Petty Cash Book, 2 Sales Books ("Town" and "Country"), 1 Purchases Book, and 1 Journal. Explain briefly what alterations (if any), it would be necessary to effect in these books in order to introduce the "sectional" system of balancing. (*London Chamber of Commerce.*)

2. The following books are in use in a printing business, and are properly kept upon the ordinary double-entry system: Cash Book (bank items only), Petty Cash Book (for all *cash* payments), Purchases Journal, Sales Journal, two personal Ledgers ("A," town debtors, and "B," country debtors), Bought Ledger, and Nominal Ledger.

You are asked to re-arrange the system of book-keeping so that every ledger may be self-balancing. How would you effect this? (*London Chamber of Commerce.*)

3. Briefly describe the uses of the Journal; and give particulars of the entries you would expect to find in the Journal of a business in which the "Sales" and "Bought" Ledgers were balanced independently, by means of adjustment accounts. (*London Chamber of Commerce.*)

4. John Garside keeps his "Sales" Ledger upon the "self-balancing" principle.

Prepare the necessary "adjustment account" as on 31st January, from the undermentioned particulars—

Jan.	1.	Total debtors' debit balances at this date were . . .	£12,542
,,	31.	,, goods sold to customers for the month . . .	21,658
,,	31.	,, ,, returned by customers for the month . .	942
,,	31.	,, cash received from customers for the month . .	15,621
,,	31.	,, discount allowed to customers for the month . .	968
,,	31.	,, acceptances received from customers, during the month	3,471
,,	31.	Total acceptances dishonoured by customers during the month	542

(*R.S.A.*)

5. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz.: "Mantles," "Dress Materials," and "Felts." There are two Sales Ledgers in use, viz.: "Town" and "Country," and each Ledger is kept upon the self-balancing principle. (*London Chamber of Commerce.*)

6. Rule a form of Cash Book which would be necessary in a business in which a General Ledger, two Bought Ledgers and two Sold Ledgers are in use, all these Ledgers being "self-balancing." Explain briefly how you would put into practice the principles of "self-balancing" Ledgers in connexion with this Cash Book. (*London Chamber of Commerce.*)

7. Illustrate the sectional system of self-balancing Ledgers by posting direct from the exercise given below, all the items necessary to form a complete Sales Ledger, render it self-balancing, and take out a Trial Balance.

On 1st March, Samuel Sparrow, Merchant, had Cash in hand, £360 10s. 6d;. Goods on hand, £450 15s. Debtors: James Crow, £220 12s. 6d.; Thomas Finch, £150 17s. 6d.; John Jay, £270 4s. 6d. Creditors: Louis Lark, £180 17s. 9d.; Robert Rook, £200 2s. 3d.

			£	s.	d.
Mar.	1.	Samuel Sparrow drew Cash for Self	20	–	–
,,	2.	Received Cash from J. Crow	210	–	–
,,	2.	Discount allowed in addition	10	12	6
,,	3.	Paid for Postages	1	7	6
,,	4.	Cash Purchases	210	5	3
,,	6.	Sold Goods to J. Crow	175	6	8
,,	6.	Charged him for Carriage paid on above Goods	1	13	4
,,	7.	Received Cash of T. Finch	147	–	–
,,	7.	Discount allowed in addition	3	17	6
,,	8.	Paid Rates	4	15	–
,,	9.	Cash Sales	130	2	6
,,	10.	T. Finch bought Goods	180	13	4
,,	11.	Sales to L. Lark	50	–	–
,,	13.	Paid L. Lark, Cash	127	–	–
,,	13.	Received Discount from him	3	17	9
,,	14.	Sales to Hy. Robin	135	11	8
,,	15.	Purchases from L. Lark	215	10	6
,,	16.	Paid R. Rook, Cash	195	–	–
,,	16.	Received Discount from him	5	2	3
,,	17.	,, Cash from Hy. Robin	35	11	8
,,	18.	J. Crow bought Goods	28	10	–
,,	20.	R. Rook sold me Goods	165	6	–
,,	21.	Received Cash of John Jay in full settlement	255	10	–
,,	21.	Wrote off his Balance as Bad Debt	14	14	6
,,	22.	Bought Goods of Charles Wren	54	2	6
,,	23.	Received Cash for a Bad Debt written off two years ago	27	15	–
,,	24.	Purchases from R. Rook	45	10	2
,,	25.	Paid R. Rook Cash	100	–	–
,,	27.	Received Cash from J. Crow	77	–	–
,,	28.	Paid Wages	16	17	6
,,	29.	,, Rent	25	–	–
,,	31.	Interest on Capital	4	10	–
,,	31.	Stock on hand	529	14	9

8. The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as on 31st December.

		£	s.	d.
June 30.	Debtors' Balances	28,394	12	6
Dec. 31.	Transactions for the half-year to date—			
	Sales to Drs.	58,421	10	8
	Returns from Debtors	691	12	–
	Cash received from Debtors	41,344	8	6
	Discounts allowed to Debtors	1,504	9	3
	Acceptances received from Debtors	4,210	1	2
	Acceptances returned dishonoured	550	–	–
	Bad Debts written off	942	10	–
	Sundry charges debited to Debtors	29	4	6

(*Chartered Accountants.*)

9. From the following particulars, write up A. Allott's Bought Ledger for the month of January, and make it self-balancing. Take out a Trial Balance in order to prove the accuracy of your work.

Ledger balances as at 1st January: S. Smith, £206 17s. 8d.; B. Brown, £156 15s. 2d.; J. Jones, £78 19s. 11d.; T. Thompson, £54 3s. 9d.; H. Hewitt, £168 13s. 6d.; L. Lovejoy, £202 2s. 6d.

His transactions for the month were as follows—

			£	s.	d.
Jan.	3.	Bought of S. Smith, Goods	76	13	2
,,	5.	Paid L. Lovejoy (Discount £9 4s. 9d.)	175	10	10
,,	10.	Bought of B. Brown, Goods	134	16	8
,,	11.	Returned Goods to J. Jones	13	14	8
,,	12.	Paid H. Hewitt on a/c	50	–	–
,,	14.	Accepted B. Brown's Draft (Discount £3 18s 6d.) . .	74	12	–
,,	17.	Bought of J. Jones, Goods	55	2	11
,,	19.	Paid T. Thompson (Discount £2 14s. 2d.)	51	9	7
,,	21.	Bought of T. Thompson, Goods	66	4	9
,,	23.	Paid J. Jones on a/c	40	–	–
,,	24.	Bought of H. Hewitt, Goods	173	12	3
,,	25.	Paid B. Brown (Discount £3 18s. 3d.)	74	6	5
,,	26.	Accepted H. Hewitt's Draft (Discount £3 5s. 9d.) . .	62	9	9
,,	28.	Returned Goods to L. Lovejoy	17	6	11
,,	30.	Bought of L. Lovejoy, Goods	157	6	10
,,	31.	Paid S. Smith (Discount £10 6s. 11d.)	196	10	9

10. From the following particulars write up P. Zucker's Bought Ledger for the month of March, and make it self-balancing. Prove the accuracy of your work by drawing out a Trial Balance as at the end of the month.

The Creditors' balances as at 1st January were: L. Luke, £265 16s. 4d.; M. Matthew, £437 9s. 2d.; J. John, £185 18s. 11d.; M. Mark, £206 16s. 10d.; P. Paul, £147 18s. 9d.; S. Silas, £356 6s. 8d.

Zucker's transactions for the month were as follows—

			£	s.	d.
Mar.	4.	Bought of L. Luke, Goods	247	9	3
,,	6.	Paid to S. Silas on a/c	80	–	–
,,	11.	Bought of M. Matthew	65	14	8
,,	12.	Accepted L. Luke's Draft (Discount, £8 0s. 10d.) . .	152	16	–
,,	13.	Returned Goods to P. Paul	27	10	6
,,	13.	Paid P. Paul (Discount, £6 0s. 5d.)	114	7	10
,,	18.	Bought of J. John, Goods	73	10	2
,,	20.	Paid M. Mark (Discount, £10 6s. 10d.)	196	10	–
,,	22.	Bought of M. Mark, Goods	127	6	11
,,	24.	Paid J. John (Discount, £9 5s. 11d.)	176	13	–

			£	s.	d.
Mar.	25.	Bought of P. Paul, Goods	48	15	6
,,	25.	Accepted S. Silas' Draft (Discount, £10 6s. 10d.)	196	9	1
,,	26.	Paid M. Matthew on a/c	100	–	–
,,	27.	Returned Goods to M. Matthew	36	15	2
,,	30.	Bought of S. Silas, Goods	165	18	10
,,	31.	Paid L. Luke on a/c	50	–	–

11. You are required to write up, from the following particulars, E. Brockwell's Sales Ledger for the month of July. Make it self-balancing, and prove the accuracy of your work by means of a Trial Balance at the end of the month.

The opening Ledger balances on 1st July were: B. Beard, £126 7s. 4d.; C. Cowan, £137 10s. 11d.; D. Doggett, £85 4s. 6d.; E. Eley, £97 13s. 10d.; F. Foxwell, £175 15s. 2d.; G. Graves, £186 4s. 8d.

The following were his transactions for the month—

			£	s.	d.
July	3.	Sold Goods to B. Beard	62	10	8
,,	4.	G. Graves returned Goods	23	19	11
,,	5.	Received from G. Graves (Discount, £8 2s. 3d.)	154	2	6
,,	6.	F. Foxwell accepted our Draft (Discount, £4 15s. 9d.)	90	19	5
,,	10.	Sold Goods to C. Cowan	74	2	11
,,	12.	Received Cash from F. Foxwell on a/c	50	–	–
,,	17.	Sold Goods to D. Doggett	165	17	4
,,	19.	Received from E. Eley (Discount, £4 17s. 8d.)	92	16	2
,,	21.	Sold Goods to E. Eley	120	13	6
,,	23.	Received from D. Doggett (Discount, £4 5s. 3d.)	80	19	3
,,	23.	C. Cowan returned Goods	16	12	9
,,	24.	Sold Goods to F. Foxwell	88	18	8
,,	25.	Received from C. Cowan (Discount, £2 17s. 6d.)	54	12	8
,,	26.	B. Beard accepted our Draft (Discount, £3 6s. 10d.)	63	9	10
,,	30.	Sold Goods to G. Graves	99	19	9
,,	31.	Received from B. Beard on a/c	40	–	–

12. From the following particulars write up G. Gardener's Sales Ledger for the month of October. Make it self-balancing, and verify the accuracy of your work by drawing up a Trial Balance as at the end of the month.

The Debtors' balances on 1st October were: A. Andrews, £174 10s. 6d.; B. Binnie, £178 15s. 5d.; C. Carter, £168 16s. 8d.; O. Orford, £207 13s. 2d.; P. Peel, £126 15s. 11d.; T. Turner, £185 10s. 10d.

Gardener's transactions for the month were as follows—

			£	s.	d.
Oct.	4.	Sold Goods to A. Andrews	185	12	11
,,	6.	Received from T. Turner on a/c	70	–	–
,,	7.	A. Andrews accepted our draft (Discount, £4 6s. 9d.)	82	8	5
,,	8.	P. Peel returned Goods	15	14	7
,,	11.	Sold Goods to B. Binnie	196	10	10
,,	13.	Received from P. Peel (Discount, £5 11s. 1d.)	105	10	3
,,	18.	Sold Goods to C. Carter	156	11	5
,,	20.	Received from O. Orford (Discount, £10 7s. 8d.)	197	5	6
,,	22.	Sold Goods to O. Orford	163	12	7
,,	23.	B. Binnie returned Goods	16	10	8
,,	24.	Received from C. Carter (Discount, £8 8s. 10d.)	160	7	10
,,	25.	Sold Goods to P. Peel	199	19	9
,,	27.	Received from B. Binnie (Discount, £8 2s. 3d.)	154	2	6
,,	29.	T. Turner accepted our draft (Discount, £3 15s. 8d.)	71	17	10
,,	31.	Sold Goods to T. Turner	187	17	8
,,	31.	Received from A. Andrews on a/c	50	–	–

13. On 1st January, Graham and Winder, who were equal partners in a business, possessed the following Assets and Liabilities: Stock, £2,750; Cash, £1,725; Plant and Machinery, £2,550; Creditors, £1,720; Debtors, £2,645. The Debtors and Creditors were as follows—

Debtors		*Creditors*	
Moore	£574	Horsham	£236
Roberts	206	Piggott	350
Harrison	495	Manton	272
Squires	369	Coles	314
Farrow	573	Day	285
Lonsdale	428	Bullen	263

The following were their transactions for the month of January—

	Sales	*Cash Received*	*Discount Allowed*
	£	£	£
Moore	276	546	28
Roberts	365	196	10
Harrison	198	466	29
Squires	457	351	18
Farrow	584	545	28
Lonsdale	343	407	21

	Purchases	*Cash Paid*	*Discount Received*
Horsham	274	225	11
Piggott	298	333	17
Manton	237	259	13
Coles	196	299	15
Day	189	271	14
Bullen	285	250	13
Sundry Exs.		263	
Graham		35	
Winder		35	
Salaries		75	
Wages		125	

Record the above transactions in their proper Ledgers, make them self-balancing, and extract Trial Balances. Close the books as at 31st January. Provide £100 for Bad Debts, £125 for Outstanding Sundry Expenses, and provide for Depreciation of Plant and Machinery at the rate of 12 per cent per annum. Charge also Interest on Capital at 5 per cent per annum. Stock in hand 31st January was £3,150.

14. H. Holland is in business, and on 1st January his assets and liabilities are: Cash, £50; Bank, £870; Stock, £1,000; Bills Receivable, £375; Furniture and Fixtures, £200; Plant and Machinery, £1,700; A. Arthur, *Dr.*, £275 16s. 4d.; B. Brown, *Dr.*, £361 14s. 2d.; F. Flower, *Dr.*, £250 12s. 2d.; C. Cook, *Dr.*, £873 5s. 11d.; Bills Payable, £420; D. Dunlop, *Cr.*, £174 13s. 2d.; G. Garnet, *Cr.*, £127 16s. 10d.; E. Ernest, *Cr.*, £86 15s. 9d.; F. Franklin, *C* ., £217 6s. 10d.

His transactions for the month are as follows—

			£	s.	d.
Jan.	4.	Sold to A. Arthur, Goods	359	8	7
,,	4.	Paid Wages	27	13	6
,,	7.	Bought from D. Dunlop, Goods	612	1	7
,,	10.	Received from B. Brown (Discount, £18 1s. 8d.)	343	12	6
,,	11.	Paid Wages	31	14	8
,,	13.	Sold to B. Brown, Goods	246	10	2
,,	13.	Paid D. Dunlop (Discount, £8 14s. 8d.)	165	18	6
,,	14.	Bought from E. Ernest, Goods	459	3	8
,,	15.	Received from A. Arthur (Discount, £13 15s. 9d.)	262	–	7
,,	15.	B. Brown returned Goods	17	16	2
,,	15.	F. Flower accepted our Draft (Discount, £12 10s. 7d.) Bill No. 59, dated 13th Jan. at 2 m/d	238	1	7
,,	15.	Paid Acceptance No. 86	270	–	–
,,	16.	Bill Receivable No. 56 duly met at Bank	120	–	–
,,	16.	Paid to E. Ernest (Discount, £4 6s. 9d.)	82	9	–
,,	18.	Sold to F. Flower, Goods	209	12	4
,,	18.	Paid Wages	42	16	9
,,	19.	,, Acceptance No. 85	150	–	–
,,	21.	Bought from F. Franklin, Goods	275	10	6
,,	22.	Accepted G. Garnet's Draft (Discount, £6 7s. 10d.). Acceptance No. 87, dated 21st Jan., at 2 m/d	121	9	–
,,	22.	Received from C. Cook (Discount, £43 13s. 4d.)	829	12	7
,,	23.	Paid F. Franklin (Discount, £10 17s. 4d.)	206	9	6
,,	23.	Received payment of Bill No. 57	155	–	–
,,	24.	Bill No. 54, accepted by A. Arthur, returned by Bank dishonoured, noting charges, 7s. 6d.	155	7	6
,,	24.	Bought from G. Garnet, Goods	216	12	2
,,	24.	Returned to F. Franklin, Goods	10	12	8
,,	25.	Paid Wages	30	6	10
,,	26.	Bill Receivable No. 58 duly met	100	–	–
,,	27.	Sold to C. Cook, Goods	316	15	8
,,	27.	Drew for Self	50	–	–
,,	31.	Ready Money Purchases	24	15	2
,,	31.	Paid Salaries	42	10	8
,,	31.	,, Rent, Rates, and Taxes	27	19	6
,,	31.	,, Trade Expenses	17	4	11
,,	31.	Ready Money Sales for month	27	13	5

You are required to record the above transactions in the proper subsidiary books, post to separate Ledgers and make them self-balancing, and to verify the accuracy of your work by extracting Trial Balances as at the end of the month.

15. Rework the model exercise on pages 283–5, but *halving* all the figures given. Ignore fractions of a penny.

16. Rework the model exercise mentioned above, but *doubling* all the figures given.

17. Adams and Bell were art dealers who agreed to purchase certain pictures on joint account, the arrangement being that the party effecting the sale was to be allowed a commission of 5 per cent on the amount realized, the remaining profit being divided equally.

On 25th June, Adams bought three pictures for £1,600, and Bell purchased two others for £1,350. Expenses of £35 were incurred, of which Adams paid £25 and Bell £10.

On 17th July Adams sold one of the pictures for 600 guineas, and on 25th July forwarded another picture to Bell, the cost of carriage and insurance (paid

by Adams) being £7 16s. Bell sold this picture on 5th August for 720 guineas, and on the same day sent Adams a cheque for the amount realized, *less* 5 per cent. The pictures purchased by Bell were sold by him on 10th and 29th July for 850 and 780 guineas respectively.

At 30th September the remaining picture was still unsold, and it was arranged that Adams should take this over for £400. On 5th October the amount due from one party to the other was settled by cheque.

Prepare a general statement showing the result of the venture and write up the Joint Account as it would appear in the books of Adams. (*R.S.A.*)

18. On 1st April, 1948, a company purchased for £13,200 a lease of a property having eleven years to run. The costs of acquisition amounted to £220. The necessary alterations were carried out at a cost of £770, and during the year the sum of £88 was spent on repairs.

On 30th June, 1948, the company purchased a motor car for £300, and the seller agreed to take in part exchange a car for which he allowed £120. The latter, which had been written down at the rate of 20 per cent per annum, stood in the books at £170.

Show the Ledger Accounts relating to (*a*) the leasehold property and (*b*) the motor cars after the closing of the books for the year ended 31st March, 1949. (*R.S.A.*)

19. The X Y Company, Limited, keep their Ledgers on the "self-balancing" system. On 31st December the Sales Ledger Account in the Private Ledger showed a debit balance, brought down 31st December of the previous year, of £4,031. During the year the total Sales were £35,422, and Returns Inwards were £625. The Cash received during the year and posted to the Sales Ledger was £31,125. The Discounts Allowed on accounts in the Sales Ledger amounted to £1,314. Transfers from the Bought Ledger to the Cr. of Sales Ledger Accounts, £720. Transfers from the Sales Ledger to the Dr. of Bought Ledger Accounts, £1,052. Bills Receivable posted to the Sales Ledger, £2,035. Write up the Sales Ledger Account and show the balance brought down at 31st December. What does this balance represent? (*Chartered Accountants.*)

20. Brown, Jones, and Robinson operate in a tripartite account in pig-iron, and purchase 10,000 tons at 48s. per ton, say, £24,000, and for which they contribute as follows—

Brown finds cash for		£7,450
Jones gives his acceptance at 3 months for	£8,000	
The discount on which is	100	
		7,900
And Robinson the balance in cash		8,650

Interest is credited to each adventurer at the rate of 5 per cent per annum from date the money is found until final settlement, the Net Profit or Loss (after payment of the above interest) being allocated among them *pro rata*, to the amount of capital each of them originally brings in. The pig-iron is held for six months, and then only realizes £21,500, the venture resulting in a loss of £2,500. Divide up this loss among the three, first crediting each adventurer with the interest due to him under the above arrangement, and carry out the above conditions. (*Institute of Bankers.*)

21. What is the difference (if any) between "Fixed" and "Floating" assets? Designate to which class the undermentioned assets, the property of a boot manufacturer, belong—

Book debts; stock-in-trade; Consols £200; plant and machinery; freehold land; bills receivable; goodwill; patents. (*London Chamber of Commerce.*)

22. What is the difference between a Trial Balance and a Balance Sheet? The *Dr.* balance of a Personal Account amounting to £250 has been carried to the Revenue Account in error. How will this affect—

(*a*) The Trial Balance, and (*b*) the Balance Sheet?

23. Richard Scott bought of the "Yorkshire Coal Company" 520 tons of Silkstone Coal, net in trucks at the Colliery, 12s. 6d. per ton, with 9d. per ton added for wagon hire. He paid one-half the amount in cash, and gave his acceptance at three months, dated 1st July, for the balance plus 5 per cent Discount on the Bill, and 1 per cent Commission. Show the entries as they would appear in the books of the Colliery Company. (*London Chamber of Commerce.*)

24. What is a Profit and Loss Account? What is the nature of the various items of which it is composed, and on which side are such items recorded and how is the final balance disposed of? (*London Chamber of Commerce.*)

25. Make out the Trading Account of the Flyaway Bicycle Co. from—

Jan.	1.	Stock of Finished Machines	£9,600
,,	1.	,, of Raw Materials	2,500
Dec.	31.	Materials purchased during year	12,500
,,	31.	Productive Wages paid	16,500
,,	31.	Manufacturing Expenses	4,600
,,	31.	Sundry Branch Expenses	8,000
,,	31.	Travellers' Salaries	3,000
,,	31.	Agents' Commissions	1,800
,,	31.	Bad Debts	1,650
,,	31.	Depreciation of Machinery and Plant	1,250
During the year 10,000 Machines were sold, realizing in the aggregate			105,000
On the 31st December, the cost price value of the Raw Material on hand was			2,200
And the Stock of 460 Finished Machines on hand			3,680

After making out the Trading Account, prepare a Profit and Loss Account. Also state what the Gross Profit on the year's working was.

(*West Riding of Yorkshire.*)

26. Record the following in the books of both parties: On 1st March, I. Iron accepts a three months' bill for £126 10s. 6d. drawn on him by S. Steel for the latter's benefit. Steel discounts the bill at the rate of 3½ per cent, and at maturity forwards Iron a cheque with which to meet the bill.

27. From the following particulars draw up, in two forms, the Balance Sheet of A. Allott and J. Jones, who are equal partners, as at 31st December—

Bills Payable	£247
,, Receivable	844
Stock-in-trade	1,200
Sundry Creditors	1,140
Furniture and Fixtures (Deduct depreciation at 5 per cent per annum)	120
Sundry Debtors	2,800
A. Allott, Capital 1st January	3,440
J. Jones, Capital 1st January	3,440
Cash in hand	29
,, at Bank	820
,, on deposit	150
Loan from N. Notley	750
Premises (Deduct depreciation £50)	2,050
Outstanding Expenses	32
Plant and Machinery (Deduct depreciation at 10 per cent per annum)	1,400
Unexpired Insurance, Telephone, Rent and Trade Subscriptions	27

Goodwill (write off £200)	£730
Investments—£500 Consols bought at 87	
Consignment A/c	450
Provision for Bad Debts	140
„ „ Discount on Debtors	133
Reserve „ „ on Creditors	57
Partners' Drawings £500 each.	
Net Profit for year, after charging the above reserves and depreciation and Interest on Capital at 5 per cent	2,050

28. N. Norton has the following transactions with G. Gregory—

19..			
Jan.	1.	Sold Goods to Gregory	£280
Feb.	15.	Received Cash from Gregory	100
Mar.	2.	Bought Goods from Gregory	690
„	3.	Accepted Gregory's draft at 1 m/d	200
Apr.	11.	Cash paid to Gregory	200
„	30.	Goods sold to Gregory, due end of May	232
May	11.	Bought Goods from Gregory	170
„	31.	Sold Goods to Gregory	250
June	15.	Bought Goods from Gregory, due end of July	290

Make out an Account Current to be rendered by N. Norton at 30th June, bringing interest into account at the rate of 5 per cent per annum.

29. A merchant has bought goods due as under—

£440 due 18th April.
£250 „ 36 days after 18th April.
£400 „ 73 „ „ „ „
£700 „ 91 „ „ „ „

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

30. J. Walters and B. Dove are in partnership as Joiners and Timber Merchants. The following balances were extracted from their books as on 30th June—

	£		£
Purchases—		B. Dove, Drawings A/c	1,000
Timber	13,926	Discount (*Dr.* balance)	91
Ironmongery and General Stores	421	Mouldings Sales	9,766
		Weather Bar Sales	1,248
Painters' and Polishers' Materials	197	Bad Debt Provision	207
		Advertising	189
Fuel and Oil	413	Office Salaries	851
Manufactured Goods	159	Interest and Commission	374
Land and Buildings	14,661	Postage and Telegrams	132
Machinery and Plant	6,743	Rent, Rates, and Taxes	513
Boiler and Heating Apparatus	498	Legal Expenses & Audit Fee	127
Repairs and General Charges	177	Travelling Expenses	409
Loose Tools as on 1st July	1,524	Purchases Returns	721
Freight	1,261	Sales Returns	1,624
Stationery & Office Expenses	350	Stock as on 1st July	8,742
Electric Light	92	Sundry Debtors	12,448
Stable Expenses	234	„ Creditors	9,693
Joinery Sales	25,747	Bills Receivable	271
Wages	12,975	Cash at Bank	2,678
Catalogues and Price Lists at cost	122	„ in hand	128
		J. Walters, Capital A/c	20,231
J. Walters, Drawings A/c	1,500	B. Dove, Capital A/c	17,217

Before closing the books, the following adjustments are necessary—

(1) Write off £500 from the Land and Buildings Account for depreciation on buildings.

(2) Write off 10 per cent depreciation from the Machinery and Plant and Boiler and Heating Apparatus Accounts.

(3) Make the Provision for Bad Debts up to £500.

(4) Charge 5 per cent interest on Capital but not on Drawings.

(5) Write off the whole of the cost of the catalogues and price lists.

The Stock on 30th June was valued by the partners at £11,247, and the Loose Tools at £1,312. The profits are shared as to three-fifths to Walters and as to two-fifths to Dove.

Bills receivable, not due until after 30th June, amounting to £1,114, had been discounted prior to that date.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 30th June, and a Balance Sheet as on that date.

(London Chamber of Commerce.)

CHAPTER X

CAPITAL AND REVENUE, REVENUE ACCOUNT, RECEIPTS AND PAYMENTS ACCOUNT, INCOME AND EXPENDITURE ACCOUNT

Importance of Distinction between Capital and Revenue. The proper distinction between Capital and Revenue, as regards both receipts and expenditure, is one of the *fundamental* principles of correct accounting. It is very essential in all cases that this distinction should be rigidly observed, and amounts rightly allocated between Capital and Revenue. Failure or neglect to discriminate between the two will falsify the whole of the results of the book-keeping. For instance, Plant may be purchased, and charged to the Purchases Account; additions may be made to the premises, and debited to Repairs Account; some of the fixed assets may be sold, and the proceeds treated as a profit. In each case, both the Profit and Loss Account and Balance Sheet would be inaccurate and misleading. These and similar mistakes are very easily made, and if undetected would soon render the book-keeping useless as a record of financial results.

The same difficulty presents itself to students every time they are given a Trial Balance and requested to prepare therefrom a Trading and Profit and Loss Account and Balance Sheet. They must be able to discriminate between Capital items and Revenue items; that is, they must know which items go in the Trading or Profit and Loss Account, and which in the Balance Sheet.

Capital Expenditure comprises all expenditure incurred in acquiring assets for the purpose of earning income, or increasing the earning capacity of the business; for example, Land and Buildings or additions thereto, Patent or Mining Rights, Plant and Machinery or additions thereto. The actual installation cost, in addition to the invoice price, should also be capitalized.

Revenue Expenditure consists of expenditure incurred in Replacements, Repairs, Renewals, Depreciation of the fixed assets, and also the current expenses of carrying on the business, such as Rent, Rates and Taxes, Wages and Salaries, Carriage, Insurance, and other trade charges.

In the following examples a distinction has been drawn between Capital and Revenue items in order further to illustrate the subject—

Installation of Electric Light and Telephone	Capital
Annual Charges for maintenance thereof	Revenue
Purchase of New Plant	Capital

Annual Repairs	Revenue
Annual Depreciation	"
Purchase of Leasehold Premises	Capital
Annual Ground Rent	Revenue
Annual Amount written off	"
Annual Repairs	"
Purchase of Patent Rights	Capital
Annual Renewal Fees	Revenue
Purchase of New Carts	Capital
New Wheels to Carts	Revenue
Sale of old Plant (depreciated value in books, £135) for £70 and purchase of New Plant £320 in place of it—	
Loss on Sale of Old Plant, £65	Revenue
Cost of New Plant, £320	Capital

The above are only general rules, as it is quite impossible to draw a hard and fast line. Circumstances sometimes arise which make the question a very complicated one. Repairs are usually a revenue charge; but if we purchase second-hand plant, and pay for some immediate repairs necessary to make it efficient for our purpose, then such repairs become Capital expenditure, and must be added to the plant as part of its cost. Wages are a revenue item; but the wages paid to workmen to erect and fit some new machinery the firm has bought must be considered as an addition to the cost of the machinery. **Legal expenses** are a revenue charge; but the legal expenses for conveyancing when purchasing a works must be treated as part of the cost of the works. **Carriage** is usually a revenue item; but carriage paid on any plant and machinery we buy must be added on as part of its cost. **Interest on Capital** during the construction of works or buildings or plant is frequently authorized to be capitalized, i.e. treated as part of the cost thereof. **Parliamentary Expenses** incurred in the promotion of bills for the establishment of Gas Works, Electric Light Undertakings, etc are also allowed to be capitalized.

Apportionment between Capital and Revenue. With some items of expenditure it may be necessary to make an apportionment, i.e. to charge so much to Capital, and to write off the balance. This is more particularly the case with alterations, improvements, and extensions of premises or plant. To capitalize the whole of the expenditure may not always be a prudent policy, as the value of the premises or plant may not be enhanced to anything like the amount of money spent thereon. Speaking generally, the safe policy to adopt seems to be *not* to capitalize *permanently* any expenditure which is not represented by assets, although legally it may be done. Take the case of a manufacturer who suddenly finds it necessary to "scrap" his plant and machinery, and replace it with newer and better inventions. A considerable loss is incurred on the sale of the obsolete plant. Is this part of the cost of the new equipment? Undoubtedly not. The proper way is to capitalize the amount

temporarily, i.e. to write it off to Revenue over a period of years, three to five, as the case may be.

Receipts. Owing to the sources of receipts being comparatively few in number as compared with the expenses, there will not be the same difficulty. There is still, however, the risk of error. In some cases old assets are disposed of and the proceeds treated as a *profit*, whereas the difference between the book value and the proceeds of sale should be written off as a *loss*.

Capital Receipts comprise any additional capital paid in by partners, or, in the case of a joint-stock company, any sums received from shareholders or debenture holders, any loans, the proceeds of sale of any of the assets.

Revenue Receipts, or Income, are the profits arising from the sales, discounts received, commission earned, interest on any investment, transfer fees, etc.

QUESTIONS

1. Why is the distinction between Capital and Revenue of great importance in book-keeping?
2. Define "Capital Expenditure." Give examples.
3. What is meant by "Revenue Expenditure"? Give examples.
4. Discriminate, in the following cases, between "capital" and "revenue" expenditure respectively—

(*a*) Purchase of Leasehold Premises. C
Annual Depreciation of Lease. R
Annual Repairs. R
Annual Ground Rent. R
(*b*) Installation of Heating and Ventilating Apparatus. C
Annual Charge for maintenance. R
(*c*) Purchase of Additional Furniture. C
Annual Depreciation. R
Annual Repairs. R
(*d*) Purchase of Patent Rights. C
Annual Depreciation. R
Annual Renewal Fees. R
R
(*e*) Sale of old Machinery (depreciated value in books, £275) for £80, and purchase of new Machinery £1,050 in place of it. C
(*f*) Purchase of Second-hand Pumps (additional). C
Wages paid to own workmen to fix. C
Immediate Repairs to make efficient. C
Cost of immediate painting. C

5. Give some examples of "revenue" expenditure becoming, under certain circumstances, "capital" expenditure.
6. Is it ever necessary to apportion one and the same lot of expenditure between both capital and revenue? Illustrate your answer by examples.
7. What is the safe rule to follow as regards "capital," in difficult questions of apportionment?
8. Is there any risk attaching to the non-discrimination between "capital" and "revenue" in the case of receipts?
9. Define "Capital Receipts." Give examples.
10. Explain what is meant by the term "Revenue Receipts." Give examples.

REVENUE ACCOUNT, RECEIPTS AND PAYMENTS ACCOUNT, INCOME AND EXPENDITURE ACCOUNT

Revenue Account. This is another name for Profit and Loss Account, usually met with in large industrial concerns such as Railways, Shipping Companies, Gas, Water, and Electricity undertakings which keep their accounts on what is called the Double Account System.

Receipts and Payments Account. This is simply a summary of the Cash transactions, as in the Cash Book, analysed or classified under suitable headings; including the opening and closing balances.

Receipts and Expenditure on Capital Account. This is the statutory name for the Capital Account of companies which adopt the Double Account System of presenting their Balance Sheet. On one side are placed the Capital Receipts from shareholders, stockholders and debenture holders, and on the other side the various items of Capital Expenditure.

Income and Expenditure Account. This is merely another term for Profit and Loss Account. It is usually adopted by *non-trading* concerns such as clubs, societies, hospitals, and also by professional men and private individuals.

Note re Hospital Accounts. The majority of hospitals now in the National Health Service are required to keep records to conform to the instructions and regulations issued by the Treasury and the Minister of Health. These records may be complete departmental accounts or simple cash records. They necessitate the preparation of Annual Estimates of Capital and Maintenance Expenditure and Income, also the keeping of impersonal accounts and the preparation of annual accounts. The day-to-day work is usually of the simplest nature, viz. a "Receipts and Payments" account (analysed if required), the expenditure being posted to the appropriate accounts. Grants from the Treasury are shown on the debit side of the "Receipts and Payments" account and posted to the ledger, and a Trial Balance prepared.

With a view to keeping expenditure within the approved estimates without hindering efficiency, budgetary control is being more widely developed, with advantage to the country as a whole and to the individual organization.

In the case of voluntary hospitals or where voluntary gifts and funds operate, full details of the sources must be given on a separate schedule of Income and Expenditure, as formerly.

An example of a hospital Balance Sheet is given on page 329.

Difference between an Income and Expenditure Account and a Receipts and Payments Account. The following points of difference should be carefully noted by the student. An Income and Expenditure Account deals with the *whole* of the income and

expenditure for the year, whether actually received and paid, or not. All accruing income and all outstanding expenses that belong to the period covered by the account must be included before any balance is struck. A Receipts and Payments Account, on the other hand, deals with only *part* of the income and expenditure for the year, namely, that part actually received and actually paid. Again, an Income and Expenditure Account contains income and expenditure of the *current* year only. A Receipts and Payments Account may contain the balance of cash in hand at the commencement and

EXCHEQUER FUND BALANCE SHEET

THE RECOVERY HOSPITAL

BALANCE SHEET AS AT 31ST MARCH, 19..

Liabilities		£ s. d.	*Assets*	£ s. d.
Regional Hospital Board— Balance at 31st March, 19..	£3,256 6 6		Stocks	23,086 1 9
Add Advances during year	402,000 – –		Sundry Debtors	8,191 10 4
	405,256 6 6		Bank and Cash Balances	1,444 19 6
Add Superannuation Contributions	20,164 – 2			
Central Supplies	482 – –			
	425,902 6 8			
Less Superannuation Refunds	2,326 1 8	423,576 5 –		
Less Net Expenditure for the Year		422,146 2 –		
		1,430 3 –		
Sundry Creditors		31,292 8 7		
		£32,722 11 7		£32,722 11 7

at the close of the year, and it will also contain all cash received and paid during the year. It may comprise, not only income and expenditure for the *current* year, but also for the *previous* year, and even for the *succeeding* year. Further, the balance (if any) of a Receipts and Payments Account denotes merely the cash in hand; the balance of an Income and Expenditure Account represents the surplus for the year, or the deficit as the case may be.

Errors in Published Accounts. It is not unusual to find some published "Income and Expenditure Accounts" showing the income on the debtor side and the expenditure on the creditor side, and containing the balance from the previous year; in some cases they are even called "Balance Sheets." The nomenclature of such accounts is, of course, quite wrong and very misleading. They are nothing more or less than Receipts and Payments Accounts, and should be so headed. A proper Income and Expenditure Account shows the **expenditure** on the **debtor** side, and the **income** on the **creditor** side, and does *not* include any balance from the *previous* year, which would simply make it impossible to arrive at the true income or expenditure for the *current* year.

QUESTIONS

1. Define "Revenue Account."
2. What is a "Receipts and Payments Account"?
3. Explain the term "Receipts and Expenditure Account."
4. What do you understand by an "Income and Expenditure Account"?
5. Is there any difference between an Income and Expenditure Account and a Revenue Account? Give reasons for your answer.
6. How would you treat accruing income and expenditure in a Revenue Account?
7. How does a Receipts and Payments Account differ from an ordinary Cash Account?
8. How does a Receipts and Expenditure Account differ from a Profit and Loss Account?
9. Can a balance from a previous year be, properly speaking, shown in an Income and Expenditure Account? Give reasons for your answer.

Example 1. From the following particulars prepare Income and Expenditure Account and Balance Sheet of the "Welcome" Club for the year ended 31st December, 19..—

	£	s.	d.
Capital A/c as per last Balance Sheet	1,875	17	3
Library Books	225	11	6
Furniture, Fixtures, and Fittings	476	12	10
Glass, Cutlery, China, House and Table Linen	286	14	9
Annual Subscriptions	675	15	6
Printing, Stationery, and Stamps bought	354	13	2
Hire of Hall (*Cr.* balance)	185	15	6
Cost of Entertainments	72	16	8
Billiard Room Receipts	216	2	10
Rent, Rates, and Taxes	124	13	9
Cash in hand	27	2	4
,, at Bank	224	11	4
,, on Deposit at 5 per cent	500	–	–
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, during the year	99	18	8
Secretary's Honorarium	160	–	–
Sale of Tickets for Entertainments	145	15	6
Salaries of Staff	246	15	6
Entrance Fees	215	15	–
Sale of Tickets for Annual Dinner	79	10	6
Gas and Electric Light	66	16	6
Sundry Creditors	163	9	2
£600 2½ per cent Consols	450	10	8
Dividend on Consols, *less* tax	11	5	–
Audit Fee	21	–	–
Interest on Bank Deposit	23	10	10
Repairs, Cleaning, and Washing	118	3	4
Cost of Annual Dinner	67	11	5
Newspapers and Magazines	58	5	9
Stock of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, 31st Dec., 19..	210	16	3
Stock of Stationery, 31st Dec., 19..	46	4	4

Depreciate Library Books, Furniture, Glass, Cutlery, etc., 10 per cent. Of the Subscriptions £20 is paid in advance, and £12 is in arrear. £17 10s. 11d. is owing for Salaries of Staff.

THE WELCOME CLUB

Dr. INCOME AND EXPENDITURE ACCOUNT—For the Year Ended 31st December, 19. . **Cr.**

Expenditure	£	s.	d.	£	s.	d.
To Printing, Stationery, and Stamps . . .	354	13	2			
Less Stock c/f . .	46	4	4			
				308	8	10
,, Cost of Entertainments .				72	16	8
,, Rent, Rates, and Taxes				124	13	9
,, Honorarium to Secretary				160	–	–
,, Gas and Electric Light .				66	16	6
,, Salaries of Staff . .	246	15	6			
,, ,, ,, due .	17	10	11			
				264	6	5
,, Audit Fee . . .				21	–	–
,, Repairs, Cleaning, and Washing . . .				118	3	4
,, Cost of Annual Dinner .				67	11	5
,, Newspapers and Magazines . . .				58	5	9
,, Depreciation—						
Library Books, 10%, £225 11s. 6d. .	22	11	2			
Furniture, etc., 10%, £476 12s. 10d. .	47	13	3			
Glass, Cutlery, etc., 10%, £286 14s. 9d.	28	13	6			
				98	17	11
Balance (Surplus of Income over Expenditure for the year) .				284	8	9
				£1,645	9	4

Income	£	s.	d.	£	s.	d.
By Annual Subscriptions .	675	15	6			
Add Amount due . .	12	–	–			
	687	15	6			
Less paid in Advance .	20	–	–			
				667	15	6
,, Hire of Hall . .				185	15	6
,, Billiard Room Receipts				216	2	10
,, Profit from Sale of Wines and Spirits, Beer, Minerals, Cigars, etc.				99	18	8
,, Sale of Tickets for Annual Dinner . .				79	10	6
,, Entrance Fees . .				215	15	–
,, Sale of Tickets for Entertainments . .				145	15	6
,, Dividends on Consols *less* tax . . .				11	5	–
,, Interest on Bank Deposit *less* tax . . .				23	10	10
				£1,645	9	4

THE WELCOME CLUB

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors . .				163	9	2
Subscriptions paid in advance				20	–	–
Outstanding Expenses .				17	10	11
Capital A/c—						
Balance, 1st Jan. . .	1,875	17	3			
Add Surplus for Year as per Income and Expenditure A/c .	284	8	9			
				2,160	6	–
				£2,361	6	1

Assets	£	s.	d.	£	s.	d.
Cash in hand	27	2	4			
Cash at Bank . . .	224	11	4			
Cash on Deposit . .	500	–	–			
				751	13	8
£600 $2\frac{1}{2}$% Consols . .				450	10	8
Outstanding Subscriptions				12	–	–
Library Books . .	225	11	6			
Less Depreciation . .	22	11	2			
				203	–	4
Furniture, Fixtures, etc. .	476	12	10			
Less Depreciation . .	47	13	3			
				428	19	7
China, Glass, Cutlery, House and Table Linen	286	14	9			
Less Depreciation . .	28	13	6			
				258	1	3
Stock of Stationery . .				46	4	4
Stock of Wine and Spirits, Beer, Minerals, Cigars, and Tobacco . .				210	16	3
				£2,361	6	1

Example 2. Porters and Marshman are equal partners in a business under the title of the Land and Buildings Rental Company. From the following particulars prepare an Income and Expenditure Account and Balance Sheet for the year ended 31st March.

TRIAL BALANCE, 31st March

	Dr. £	s.	d.	Cr. £	s.	d.
Repairs, Painting and Decorating	47	11	5			
Bank Interest				30	11	4
Capital A/c, Marshman (1st April)				8,000	–	–
,, ,, Porters (1st April)				8,000	–	–
Bank Charges	9	8	7			
S. Smeethe (half-year's Rent to 31st Jan.)	75	–	–			
Sundry Expenses	10	11	6			
Rentals A/c				3,673	15	8
Cash at Bank	2,448	3	9			
Drawings A/c, Marshman	500	–	–			
,, ,, Porters	500	–	–			
Income Tax	46	16	3			
Insurance	20	–	–			
Postages and Telegrams	14	1	5			
Settlet Co., Ltd. (half-year's Rent to 31st Dec. last)	120	–	–			
Interest on Mortgage	380	–	–			
Heating and Ventilating	55	16	6			
F. Foothe (half-year's Rent to 28th Feb.)	120	–	–			
Mortgage on Property at 4%				9,500	–	–
Salaries of Secretary and Staff	489	10	–			
Land and Buildings (1st April)	24,500	–	–			
Advertising	65	10	4			
Printing and Stationery	27	13	8			
Sundry Creditors				596	18	1
R. Ruffe (half-year's Rent due 31st Jan.)	200	–	–			
P. Platone (half-year's Rent due 31st Dec. last)	115	–	–			
Audit Fee	15	15	–			
Agent's Commission	40	6	8			
	£29,801	5	1	£29,801	5	1

Three other tenants have paid Rent to 28th February, namely, L. Leake, at £240 per annum; M. Meante, at £180 per annum; N. Norre, at £220 per annum.

Depreciate Land and Buildings 1 per cent; charge Interest on Capitals at 5 per cent; and reserve £20 for Repairs.

Special Items in Income and Expenditure Accounts. Instructions are, as a rule, given in the exercises as to the treatment of special items. Extraordinary expenditure is generally spread over a period of years. Donations and Subscriptions are usually credited to Income, and Legacies to Capital. The rules of the

LAND AND BUILDINGS RENTAL COMPANY

Dr. INCOME AND EXPENDITURE ACCOUNT—FOR THE YEAR ENDING 31ST MARCH *Cr.*

Expenditure	£	s.	d.	£	s.	d.
To Repairs, Painting, and Decorating	47	11	5			
Ditto due	20	–	–			
				67	11	5
,, Sundry Expenses				10	11	6
,, Bank Charges				9	8	7
,, Income Tax				46	16	3
,, Insurance				20	–	–
,, Postage and Telegrams				14	1	5
,, Interest on Mortgage				380	–	–
,, Heating and Ventilating				55	16	6
,, Salaries of Secretary and Staff				489	10	–
,, Advertising				65	10	4
,, Printing and Stationery				27	13	8
,, Audit Fee				15	15	–
,, Agents' Commission				40	6	8
,, Depreciation— Land and Buildings 1%, £24,500				245	–	–
,, Interest on Capital— Porters 5%, £8,000	400	–	–			
Marshman 5%, £8,000	400	–	–			
				800	–	–
,, Balance (Surplus for Year)— Porters ½	849	7	10			
Marshman ½	849	7	10			
				1,698	15	8
				£3,986	17	–

Income	£	s.	d.	£	s.	d.
By Bank Interest				30	11	4
,, Rentals A/c	3,673	15	8			
Ditto accrued—						
S. Smeethe, 2 mos. at £150 p.a.	25	–	–			
Settlet Co., Ltd., 3 mos. at £240 p.a.	60	–	–			
F. Foothe, 1 mo. at £240 p.a.	20	–	–			
R. Ruffe, 2 mos. at £400 p.a.	66	13	4			
P. Platone, 3 mos. at £230 p.a.	57	10	–			
L. Leake, 1 mo. at £240 p.a.	20	–	–			
M. Meante, 1 mo. at £180 p.a.	15	–	–			
N. Norre, 1 mo. at £220 p.a.	18	6	8			
				3,956	5	8
				£3,986	17	–

LAND AND BUILDINGS RENTAL COMPANY

BALANCE SHEET AS AT 31ST MARCH, 19..

Liabilities	£	s.	d.	£	s.	d.
				596	18	1
Sundry Creditors				20	–	–
Reserve for Repairs				9,500	–	–
Loan on Mortgage						
Capital A/cs—						
Porters, 1st April	8,000	–	–			
Add Interest	400	–	–			
Add Share of Surplus	849	7	10			
	9,249	7	10			
Less Drawings	500	–	–	8,749	7	10
Marshman, 1st April	8,000	–	–			
Add Interest	400	–	–			
Add Share of Surplus	849	7	10			
	9,249	7	10			
Less Drawings	500	–	–	8,749	7	10
				£27,615	13	9

Assets	£	s.	d.	£	s.	d.
Cash at Bank				2,448	3	9
Sundry Debtors—						
S. Smeethe (£75 + £25)	100	–	–			
Settlet Co., Ltd., (£120 + £60)	180	–	–			
F. Foothe (£120 + £20)	140	–	–			
R. Ruffe (£200 + £66 13s. 4d.)	266	13	4			
P. Platone (£115 + £57 10s.)	172	10	–			
L. Leake	20	–	–			
M. Meante	15	–	–			
N. Norre	18	6	8			
				912	10	–
Land and Buildings	24,500	–	–			
Less Depreciation	245	–	–			
				24,255	–	–
				£27,615	13	9

association or institution may, however, provide that a certain portion of the Donations and Entrance Fees, or other sources of income, shall be capitalized. Legacies may, in certain cases, be for a definitely specified purpose, and will then require special accounts; while the income therefrom will also require to be separately treated. By way of illustration we append the answer to the second part of Exercise X (5), at the end of this chapter.

"CREEGHTEEN" ENDOWMENT FUND

RECEIPTS AND PAYMENTS ON CAPITAL ACCOUNT

Dr.	£ s. d.	Cr.	£ s. d.
To Cash (Legacy from R. Bowntree, of "Creeghteen," to be invested, in trust) .	8,000 – –	By Investments—	
		£3,000 G.W.R. 4% Debentures . .	3,285 15 4
		£3,000 3% Funding Loan . . .	2,842 10 6
		£2,000 2½% Conversion Loan . . .	1,871 14 2
	£8,000 – –		£8,000 – –

INCOME ACCOUNT

For the Year Ending 31st December, 19..

Dr.	£ s. d.	Cr.	£ s. d.
To Grants made to "Creeghteen" Cases	94 5 –	By Cash—	
,, Transfer to Income and Expenditure A/c .	94 5 –	Dividends on—	
		G. W.R. Debentures .	87 – –
		Funding Loan . .	65 5 –
		Conversion Loan .	36 5 –
	£188 10 –		£188 10 –

Note. The first statement is the usual Cash Statement printed and forwarded to patrons of, and subscribers to, such institutions. It is often incorrectly called a "Capital Account," whereas it is in reality only a Cash Account of the Capital moneys, showing what has been received and how it has been invested. If the books are properly kept, the first statement would be represented in the Ledger by the accounts below.

CAPITAL ACCOUNT

Dr.		Cr.	£ s. d.
		By Cash (Legacy from R. Bowntree, of "Creeghteen," to be invested in trust) . . .	8,000 – –

Dr.	INVESTMENT ACCOUNT		*Cr.*
	£ s. d.		
To Cash— £3,000 G.W.R. 4% Debentures . . .	3,285 15 4		
£3,000 3% Funding Loan . . .	2,842 10 6		
£2,000 2½% Conversion Loan . . .	1,871 14 2		
	£8,000 – –		

EXERCISE X

1. What is the chief difference between a "Receipts and Payments Account" and an "Income and Expenditure Account"? In what undertakings are these forms of accounts respectively made use of? (*R.S.A.*)

2. Is there any difference between a Receipts and Payments Account and an Income and Expenditure Account?

The following particulars relate to the Chilworth Literary Society for the year ended 31st December: Subscriptions received, £110; Interest received on Investment, £38; net proceeds received from Lectures and Concerts, £232; Rent paid for use of Hall, £21; Petty Cash Payments, £10; Advertising paid, £21; Printing Expenses paid, £12 10s.

The Society holds ten 4 per cent debentures of £100 each in the Universal Library, Ltd. As on 31st December, the Society owed £8 for Rent of Hall and £9 10s. for Printing.

Prepare the Society's Annual Statements of Account for the year ended 31st December. (*London Chamber of Commerce.*)

3. From the following, prepare in correct style the Income and Expenditure Account of the Carlton Club for the year ended 31st December, 19...

Rent, Rates, and Taxes (not paid), £50. Fuel and Gas, £40. Caretakers' Wages, £68. Printing and Stationery, £30. Repairs, £12. Salaries, £100. Subscriptions due or accrued, £200. Donations, £50. Billiard Room, £60. Refreshment Room, £100. Sunday Hiring, £20. Balance to be shown.

4. From the following particulars, prepare Revenue Account and Balance Sheet of the "Green Lanes" Golf Club for the year ended 31st December. The Club's Articles of Association provide that half of each original member's subscription, and half the entrance fees of other members are to be credited to Capital, and half of any surplus of Revenue is to be placed to a Reserve Fund.

Receipts for the Year. Subscriptions from 140 original members @ £5 5s.; 220 Additional Members' Entrance Fees @ £1 1s., and Subscriptions @ £5 5s. Interest on Deposit, *less tax*, £10 3s. 4d. Sales of Provisions and Liquors, £637 18s. 2d. Half-year's Grazing Rent to 30th June @ £45 per annum. Loan, £900 @ 4 per cent.

Payments for the Year. Club Manager's Salary, £250. Greenkeeper's Wages, £150. Rent, £550. Interest on Loan, £36. Cost of Annual Dinner, £100. Sundry Expenses, £53 8s. 1d. Taxes and Insurance, £72 13s. 8d. Servants' Wages, £58 5s. Fuel, Lighting, and Cleaning, £53 10s. 11d. Liquors and Provisions purchased, £873 16s. 4d. Furniture purchased, £55 13s. 6d. Furnishings purchased, £25 10s. 2d. Repairs as per plumber's accounts, £5 2s. 7d. Repairs as per joiner's accounts, £7 3s. 4d. Printing and Stationery, £38 15s. 9d. J. Jones, builder (Club Premises Account), £275 15s. 4d. A. Brown, joiner (Club Premises Account), £520 10s. R. Roe, architect (Club Premises Account), £120. T. Tims, painter (Club Premises Account), £52 10s. 6d.

On 31st December the Cash in hand was £27 10s. 8d., the Cash at Bank,

£95 5s. 8d.; the Cash on Deposit, £270; the Stock of Provisions and Liquors, £286 14s. 9d.

Charge Depreciation on the total cost of Club Premises at 3 per cent, on Furniture at 2½ per cent, and on Furnishings at 15 per cent.

5. From the following particulars prepare Income and Expenditure Account of the "Bartimaeus" Home for the Blind, for the year ending 31st December. Show also the "Creeghteen" Endowment Fund Capital and Income Accounts.

Trial Balance Debits. Servants' Wages, £286 4s. 2d. School Expenses, £157 13s. 8d. Coal, Gas, and Water, £274 8s. 9d. Clothing, £426 16s. 6d. Printing, Stationery, and Advertising, £106 12s. 4d. General Charges, £117 11s. 10d. Provisions, £1,046 5s. 7d. Repairs and Maintenance, £306 10s. 5d. Salaries of Head Officials, £1,072 4s. 6d. Legal and Accountancy Fees, £21 8s. 3d. Rates, Taxes, and Insurance, £156 3s. 9d. Grants to ex-pupils, £542 10s. 6d. Trading deficit on Workshops, £54 4s. 8d. New Drainage, £375 12s. 2d. "Creeghteen" Endowment Fund Investment Account, £8,000 (Nominal Value, £11,500). Cash in hand, £44 16s. 3d. Cash at Bank, £2,075 12s. 8d. Investments Account (total as per Schedule), £85,068 10s. 6d. Accrued Interest on Investments. £896 14s. 2d. Stocks on hand, 31st December (Clothing, Provisions, Stationery, Baskets, Brushes, Mats, Upholstery, etc., as per separate Schedules), £753 5s. 11d, Trading Loss on Upholstering Department, £10 15s. 6d.

Trial Balance Credits. Sundry Creditors, £515 11s. 7d. "Creeghteen" Endowment Fund Account, £8,000. Legacies received during year, £5,200. Capital Account (1st January), £82,828 3s. 3d. Profits on Manufacturing and Trading Departments; Baskets, £58 15s. 3d.; Brushes, £29 10s. 2d.; Mats, £34 16s. 8d. Income from Investments, £3,050 10s. 10d. Education Dept. Grants, £356 12s. 6d. General Donations, £100. Subscriptions, £340 10s. 6d. Inmates' Payments, £752 14s. 4d. Proceeds of Concerts, £142 9s. 9d. Proceeds of Collections, £207 16s. 3d. Bank Interest, £54 2s. 8d. "Creeghteen" Endowment Income (£188 10s., *less* Grants to "Creeghteen" cases), £94 5s. Income Tax outstanding £28 3s. 4d.

The "Creeghteen" Endowment Fund consists of a legacy of £8,000 from R. Bowntree, Esq., to be invested in trust. Half the income is to be applied to the relief of blind persons resident in "Creeghteen," and the other half to the general purposes of the Home. The Fund is represented by the following Investments: £3,000 Great Western Railway 4 per cent Debentures, cost £3,285 15s. 4d.; £3,000 3 per cent Funding Loan, cost £2,842 10s. 6d.; £2,000 2½ per cent Conversion Loan, cost £1,871 14s. 2d.

Income Tax is to be calculated at 5s. 6d. in the £, the net amount only being credited to the Income Account.

The expenditure on New Drainage is to be spread over three years.

6. Duckle & Drake are equal partners in a business under the style of The Land and Buildings Lettings Co. From the following particulars prepare Revenue Account, Net Revenue Account, and Balance Sheet for the year ended 31st March.

TRIAL BALANCE, 31ST MARCH, 19..

Debits. Agents' Commission, £80 13s. 4d. Repairs, Painting, and Decorating, £95 2s. 10d. Audit Fee, £31 10s. Bank Charges, £18 17s. 2d. P. Pucke (half-year's Rent to 31st December last), £230. S. Steavens (half-year's Rent to 31st January), £150. R. Reeke (half-year's Rent due 31st January), £400. Sundry Expenses, £21 3s. Printing and Stationery, £55 7s. 4d. Cash at Bank, £4,896 7s. 6d. Advertising, £131 0s. 8d. Drawings Account, Duckle, £1,000. Drawings Account, Drake, £1,000. Land and Buildings (1st April), £49,000. Income Tax, £93 12s. 6d. Salaries of Secretary and Staff, £979. Insurance, £40. F. Feeckle (half-year's Rent to 28th February), £240. Postages and Telegrams, £28 2s. 10d. Heating and Ventilating, £111 13s. Steelton Co., Ltd. (half-year's Rent to 31st December last), £240. Interest on Mortgage, £760.

Credits. Sundry Creditors, £1,193 16s. 2d. Bank Interest, £61 2s. 8d. Loan

on Mortgage at 4 per cent, £19,000. Capital Account, Duckle (1st April), £16,000. Capital Account, Drake (1st April), £16,000. Rentals Account, £7,347 11s. 4d.

Depreciate Land and Buildings 1 per cent. Charge Interest on Capitals at 5 per cent. Provide £40 for Repairs.

Three other tenants have paid Rent to 28th February, namely, L. Loomthe at £480 per annum, M. Moone at £360 per annum, and N. Nette at £440 per annum.

7. From the following particulars, prepare Income and Expenditure Account and Balance Sheet of the "Kreek Ffynche" Nursing Home for the year ended 31st December.

Cash on Current Account, £362 4s. 8d. Cash on Deposit Account, £350. Fees paid by Patients, £1,056 16s. 10d. Salaries of Nurses and Superintendents, £362 8s. 5d. Premises, £4,250 12s. 6d. Furniture and Fixtures, £827 13s. 4d. Creditors, £150. Wages, £124 14s. 3d. Provisions, £383 7s. 10d. Salaries of Secretary and Treasurer, £300. Donations and Subscriptions, £826 2s. 8d. Medicines and Surgical Appliances, £106 10s. 5d. Investments, £1,756 12s. 2d. Interest on Deposit *less tax*, £13 3s. 8d. Taxes and Insurance, £86 16s. 6d. L. Loop for endowment of "Loop" Bed, *Cr.* £850. Repairs, £238 3s. 10d. Collectors' Commission, £36 11s. 9d. Printing and Stationery, £120 6s. 8d. Capital Account (1st January), £6,480 16s. 6d. Sundry Expenses, £18 15s. 5d. Dividends on Investments *less tax*, £62 1s. 9d. Fuel, Lighting, and Cleaning, £108 18s. 8d. Auditors' Fees, £5 5s.

Depreciate Premises $2\frac{1}{2}$ per cent, and Furniture 5 per cent. The Stock of Provisions at 31st December was £37 13s. 4d.

8. Record the following transactions in the Bad Debt Account of Messrs. Tudor and Mann, Ltd.—

(1) Bad Debts written off during year to 31st March, 1949—

		£	*s.*	*d.*
1948				
Sept. 30.	J. Smith	165	10	–
„ 30.	K. Brown	18	5	–
1949				
Mar. 31.	O. Robinson	43	3	10
„ 31.	N. White	102	5	4

These sums were the full amounts owing in each case.

(2) Dividends received during the year on amounts written off—

1948
Nov. 16. J. Smith, 6s. 8d. in the £.
Dec. 9. K. Brown, 1s. in the £.
„ 30. H. Black, 2s. 6d. in the £ on a debt of £64 written off during the previous financial year.

(3) A Provision is made at the end of each financial year for all debts known to be doubtful, together with a provision of $2\frac{1}{2}$ per cent on the remaining debts.

The total debts were as follows—

1948
Mar. 31. £16,329 10s., of which debts amounting to £221 10s. were regarded as doubtful.
1949
Mar. 31. £10,196 10s., of which debts amounting to £492 10s. were regarded as doubtful.

Write up the Bad Debts Account and close it off on 31st March, 1949, showing the amount chargeable against the Company's Profit and Loss Account for the year ended 31st March, 1949. (*C.I.S. Adapted.*)

9. From the following Trial Balance of "*Ye Olde Swelle*" Club, prepare Income and Expenditure Account and Balance Sheet for the year ending 30th September.

TRIAL BALANCE, 30TH SEPT.

	Dr. £	s.	d.	Cr. £	s.	d.
Annual Subscriptions				1,351	11	–
Entrance Fees				431	10	–
Sale of Tickets for Entertainments				291	11	–
Dividends on Consols *less tax*				28	5	–
Printing, Stationery, and Stamps	709	6	4			
Honorarium to Secretary	320	–	–			
Repairs, Cleaning, and Washing	236	6	8			
Cost of Entertainments	145	13	4			
Sale of Tickets for Annual Dinner				159	1	–
Newspapers and Magazines	116	11	6			
Hire of Hall				371	11	–
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco				199	17	4
Rent, Rates, and Taxes	249	7	6			
Salaries of Staff	493	11	–			
Interest on Bank Deposit *less tax*				47	1	8
Cost of Annual Dinner	135	2	10			
Gas and Electric Light	133	13	–			
Receipts from Billiard Rooms				432	5	8
Auditor's Fee	42	–	–			
Cash in hand	54	4	8			
,, at Bank	454	17	8			
,, on Deposit at 5%	1,000	–	–			
Sundry Creditors				326	18	4
£1,200 Consols	901	1	4			
Capital A/c, 1st October				3,751	14	6
Library Books	451	3	–			
Furniture, Fixtures, and Fittings	953	5	8			
Glass, Cutlery, China, House, and Table Linen	573	9	6			
Stock of Wines and Spirits, Beer, Minerals, Cigars, and Tobacco, 30th September	421	12	6			
	£7,391	6	6	£7,391	6	6

Of the Subscriptions, £40 is paid in advance; there is also £24 in arrear. Depreciate Library Books, Furniture, Glass, Cutlery, etc., at 10 per cent. Stock of Stationery, 30th September, £92 8s. 8d.; £35 1s. 10d. has accrued for Salaries of staff.

10. From the following particulars prepare Income and Expenditure Account and Balance Sheet of the "Sleethorpe" Progressive Club for the year ended 31st December.

Trial Balance Debits. Printing, Stationery and Newspapers, £127 13s. 8d. Repairs, £175 10s. 2d. Wines, Spirits, and Cigars, £356 4s. 7d. Alterations and Improvements to Premises, £950 15s. 3d. Cash in hand, £10 14s. 6d. Cash at Bank, £575 10s. 8d. Salary of Secretary, £120. Sundry Debtors, £46 2s. 5d. Stock of Wines and Cigars (1st January), £75 16s. 4d. Servants' Wages, £372 13s. 6d. Rent, £250. Rates and Taxes, £78 10s. 6d. Fuel, Lighting, Cleaning, and Washing, £257 13s. 7d. Furniture and Fixtures, £475 15s. 8d. Legal Expenses, £6 6s. Expenses of Social, £20 10s. 10d.

Trial Balance Credits. Subscriptions, £987 15s. 6d. Creditors, £475 3s. 4d. Bar and Billiard and Card Room Receipts, £356 10s. 2d. Sale of Wines, Spirits, and Cigars, £572 13s. 3d. Capital Account (1st January), £1,257 15s. 5d. Special Levy on Members, £250.

Depreciate Furniture and Fixtures 10 per cent, and write £120 off Alterations and Improvements to Premises. Stock of Wines, Spirits, and Cigars on 31st December, £72 10s. 5d.

11. The following is the published account of a provincial Charitable School—

BALANCE SHEET

FOR THE YEAR ENDING 31ST DECEMBER, 19..

		£ s. d.			£ s. d.
To Government Grants—			By Alterations and Repairs		76 2 3
Ordinary	£2,060 10 6		,, Salaries and Wages		754 13 5
Special	120 3 6		,, Washing and Cleaning		287 9 9
		2,180 14 –	,, Fuel, Lighting, and Heating		126 16 6
Councils' Grants—			,, Furniture		296 10 2
Ordinary	£1,026 10 6		,, Clothing		317 17 7
Outfits	55 16 8		,, Printing and Stationery		88 18 5
		1,082 7 2	,, Outfits		76 16 6
,, Subscriptions		126 10 6	,, Rates, Taxes, and Insurance		85 13 3
,, Interest		19 10 8	,, Boys' Reward		20 10 6
,, Receipts from Band		72 10 11	,, Medical Expenses		43 7 5
,, Sundry Profits		126 16 9	,, Band Expenses		175 11 10
,, Profits of Farm		98 10 2	,, Loss on Workshops		26 9 9
,, ,, of Gardens		29 12 5	,, Travelling Expenses		63 17 2
,, Balance (Loss for year)		260 10 3	,, Cost of Entertainments		36 15 9
,, Rents of Land		156 10 6	,, Provisions		1,027 3 3
			,, Postages		36 12 8
					3,541 6 2
			Special Expenditure—		
			New Drainage	£475 15 8	
			Improvements to Premises	136 11 6	
					612 7 2
		£4,153 13 4			£4,153 13 4

What criticism have you to offer on the above?

12. From the following particulars of the "Lumley" Aviation Club prepare Revenue Account for the year ended 31st December.

Receipts for the Year. Subscriptions, £1,272 10s. 6d. Interest on Investments, £44 2s. 3d. Proceeds of Sale of Journal, £175 15s. 4d.

Expenditure for the Year. Salaries, £327 10s. 6d. Deputation Expenses, £40, Annual Dinner and Entertainment, £72 13s. 11d. Journal Expenses, £146 8s. 5d. Postages, £15. General Expenses, £10 14s. 4d. Printing and Stationery, £37 2s. 9d. Year Book Expenses, £136 7s. 7d. Rent, Rates, and Taxes, £346 12s. 6d. Fuel, Lighting, and Cleaning, £56 6s. 2d. Lecture Expenses, £75. Legal Expenses, £7 12s. 6d. Auditors' Fees, £10 10s.

13. From the following particulars make up a Receipts and Payments Account for the year ending 31st December—

	£	s.	d.
Cash in hand and at Bank 1st January	274	13	2
Subscriptions for the year	45	10	6
Purchases of Furniture during the year	25	15	6
Stationery and Printing during year	14	13	2
Postages and Petty Expenses during year	10	9	8
Receipts from sale of Tickets for Annual Dinner	66	10	6
Expenses of Annual Dinner and Entertainment	47	2	10
Grants made for benevolent purposes	15	15	–
Engraving Coat of Arms	3	3	–
Interest on Bank Deposits	3	10	5

14. From the following prepare an Account Current, reckoning interest at $3\frac{1}{2}$ per cent per annum on the debit items and 4 per cent per annum on the credit items to 30th June—

C. BARRAND IN ACCOUNT CURRENT WITH P. SMITH

19..			£	19..			£
Jan.	1.	To Balance . .	1,240	Jan.	9.	By Bill 2 m/d .	1,240
Feb.	2.	,, Goods . .	450	Feb.	24.	,, Goods due 24th Mar. . .	1,000
,,	29.	,, ,, due 29th Mar. .	29	Mar.	29.	,, Bill 1 m/d .	730
Mar.	24.	,, Bill 4 m/d .	1,000				
May	6.	,, Goods . .	35				

15. What is the average due date of the following instalments payable under a contract?

13th April . . .	£3,500
11th May . . .	£5,200
12th June . . .	£2,300

Draw a bill to meet the total amount plus interest thereon at 5 per cent at 3 months from the average due date, marking stamp duty thereon.

16. If, on comparing your Bank Cash Book Balance with your Bank Pass Book Balance, you found that the two did not agree, what steps would you take to check the correctness or otherwise of your Bank Cash Book, and what would be the principal differences you would expect to find? *(R.S.A.)*

17. What is a "Suspense Account"? Give a few examples: (*a*) of legitimate purposes for which such an Account may be used; (*b*) of errors which the abuse of a Suspense Account may cover. *(London Chamber of Commerce.)*

18. State the advantages or disadvantages of Loose-leaf Ledgers. *(U.L.C.I.)*

19. Jackson & Co., of Middlesbrough, sell to Williamson & Co., of Sheffield, 25 tons Hematite Iron at 49s. 4d. cash in a month; Invoice was sent in due course, but at the end of the time allowed for payment, Williamson & Co. asked Jackson & Co. to draw on them at three months for the amount of Invoice, adding 1 per cent for commission, with 5 per cent for discount on the bill; this was agreed to—the bill was drawn and accepted, and duly met at maturity. Prepare the necessary Day Book, Journal, Cash Book, and Ledger entries as you would expect to find them in Jackson & Co.'s books.

(London Chamber of Commerce.)

20. Arthur Holt keeps his "Sales Ledger" on the "self-balancing" principle. From the following particulars prepare the necessary "Adjustment Account" as at 31st March—

			£	*s.*	*d.*
Mar.	1.	Debtor's balances at this date	6,271	–	–
,,	31.	Acceptances dishonoured by customers during the month	271	–	–
,,	31.	Cash received from customers for month . . .	7,810	10	–
,,	31.	Goods returned by customers for month . . .	471	–	–
,,	31.	,, sold to customers for month	10,829	–	–
,,	31.	Customers' acceptances during month . . .	1,735	10	–
,,	31.	Discount allowed to customers for month . . .	484	–	–

21. How would you deal with Consignments (*a*) in the books of the consignor? (*b*) In the books of the consignee? *(U.L.C.I.)*

22. A merchant has bought goods due as under—

£660 due 91 days previous to 18th July.
£375 ,, 55 ,, ,, ,,
£600 ,, 18 ,, ,, ,,
£1,050 ,, on 18th July.

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

23. On 1st April, S. Sund accepts a three months' bill for £150 drawn on him by M. Moon for their mutual convenience. The bill is then discounted by Moon at $3\frac{3}{4}$ per cent, and half the proceeds handed to Sund. At maturity Moon sends a cheque to Sund, who then pays the bill. Show the Ledger accounts in the books of both parties.

24. On 1st January, A. Stevenson bought goods value £1,100 and consigned them to L. Lanng as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £70; Insurance, etc., £25 4s.; and drew on Lanng at two months for £600 on account, discounting the bill on 4th January for £597 10s. On receipt of the goods on 1st February Lanng paid Dock Dues and Cartage, £30; and Government Duty, Insurance, etc., £40. On 31st May, Stevenson received an Account Sales showing that on 30th April the goods had realized gross £1,640, and that Lanng's disbursements made on the same date were: Storage, £30; Sundries, Brokerage, and Expenses of Sale, £100. Lanng also enclosed a sight draft for amount due at 31st May. Prepare a general statement showing the result of the venture, and write up the accounts in Stevenson's and Lanng's Ledgers respectively. Interest is to be brought into account at the rate of 5 per cent per annum.

25. J. Skinner and H. Fuller are in partnership as wholesale grocers. The balances of their Capital Accounts were equal as on 31st December. In addition to the balances of the Capital Accounts, the following balances appeared in the books—

	£	s.	d.		£	s.	d.
J. Skinner (Drawings A/c)	971	10	–	Sundry Debtors	7,982	13	4
H. Fuller (Drawings A/c)	842	12	6	,, Creditors	3,641	12	2
Office Salaries	979	7	6	Purchases	10,724	12	5
General Expenses	174	19	7	Sales	28,990	15	–
Factory and Warehouse Wages	2,356	17	4	Rents received	76	–	–
Rates, Taxes, and Insurance	470	4	10	Carriage Inwards	374	3	3
Repairs and Renewals	142	3	–	,, Outwards	537	4	7
Manufacturing Expenses	371	12	4	Plant, Machinery, and Fixtures	1,489	6	8
Legal Expenses and Audit Fee	67	2	–	Freehold Land and Buildings	6,237	16	–
Travellers' Expenses and Commission	547	–	7	Stock in hand (1st Jan.)	7,047	11	4
Advertising	12,127	4	2	Postage and Stationery	243	14	1
Discount A/c (Debit Balance)	124	18	1	Bad Debts written off	141	9	4
				Purchases Returns	351	4	6
				Sales Returns	1,240	5	–
				Cash at Bank	1,110	19	–
				,, in hand	112	12	7

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

Before preparing these accounts, it is necessary to take the following matter into consideration—

(*a*) 10 per cent Depreciation is to be written off Plant, Machinery, and Fixtures.

(*b*) J. Skinner withdrew Capital to the extent of £1,000 on 30th June.

(*c*) Provision for Bad and Doubtful Debts, amounting to $2\frac{1}{2}$ per cent on the Debtors, is to be created.

(*d*) Interest on Capital (but not on Drawings) is to be charged at the rate of 5 per cent per annum.

(*e*) Carry forward Insurance unexpired and Rates paid in advance (£18 8s. 2d. and £24 7s. 6d. respectively).

(*f*) The amount to be charged against the Profit and Loss Account for advertising is to be reckoned as 20 per cent on the net sales; the balance of the Advertising Account is to be carried forward.

(*g*) The partnership agreement provides that losses are to be borne equally by the Partners, but that profits are to be divided as follows—

$\frac{2}{5}$ths to J. Skinner.
$\frac{2}{5}$ths to H. Fuller.
$\frac{1}{5}$th to be set aside for division amongst employees.

(*h*) The Stock in hand on 31st December was valued and agreed at £6,954 12s. 2d.

(*London Chamber of Commerce.*)

26. Bought Goods on Joint Account with R. Roberts (profits divisible equally) from Walker & Co. for £1,050. Paid Carriage and Expenses, £55. Received R. Roberts's moiety of speculation, £525. Sold part of the goods to Marshman & Co. for £650, part for Cash £450, and took remainder value £400 into stock for my own use. Charged, as manager's commission, 5 per cent on the Sales.

Make the necessary entries in the books and show the Joint Account in the Ledger.

27. Dobson & Co. are commission agents, and on 1st May, they receive a consignment of goods from Braim & Son to be sold on behalf and at the risk of the consignors. The transactions effected by Dobson & Co. in relation to these goods were as follows—

			£	s.	d.
May	1.	The goods were received, and a letter arrived from Braim & Son saying that they hoped the goods would realize not less than £560.			
,,	8.	Sold by auction, on credit, to Fred Hunting, part of the goods for	400	–	–
,,	10.	Paid carriage inwards on the goods	9	7	6
,,	12.	Sold the remainder of the goods by private treaty for cash for	215	–	–
,,	13.	Paid freight and customs duty on the goods	24	8	9
,,	24.	Rendered an account sales, charging 5s. a ton on 20 tons for handling charges, and 5 per cent commission for selling the goods, and enclosing a remittance for the balance due.			

Record the foregoing in Journal and Cash Book form in the books of Dobson & Co., and post to appropriate ledger accounts. (*Faculty of Teachers in Commerce.*)

28. What is the difference between—

(*a*) Consignment, and (*b*) Joint Adventure?

How would you deal with Consignments not completed at the date of balancing?

29. From the following particulars draw up an Account Current to be rendered by B. Boot to L. Lacey at 30th June, reckoning interest at 5 per cent per annum—

19..

Jan. 1. Balance owing by L. Lacey to B. Boot, £255 13s.
Feb. 10. Cash received from Lacey, £120.
,, 23. Goods bought of Lacey, £478 9s. 10d.
,, 25. Boot accepted Lacey's draft @ 1 m/d for £200.
Mar. 10. Cash paid to Lacey, £150.
Apl. 12. Goods sold to Lacey, £391 1s., due 12th May.
May 19. ,, bought of Lacey, £226 19s. 4d.
June 8. ,, bought of Lacey, £113 9s. 2d.
,, 15. Cash paid to Lacey, £100.
,, 20. Goods sold to Lacey, £496 7s. 8d.
,, 25. Cash received from Lacey, £200.

30. Received Consignment of Goods from B. Bowman, valued at £750. Paid cartage and expenses, £20. Sent Bowman bill at one month for £200 as an Advance. Sold part of Consignment to R. Brown for £350, part for Cash £350, and the remainder £300 took into stock for our own use. Charged Bowman 5 per cent Commission, and sent him sight draft for amount due.

Make the necessary Journal and Cash Book entries to record the above, and show Bowman's account in the Ledger.

CHAPTER XI

DEPARTMENTAL ACCOUNTS

Definition. Departmental Accounts are accounts relating to the several departments, or divisions, of a business, it being desired to ascertain the trading results of each department, or class of goods, separately.

Analytical Purchases and Sales Books. To attain the above-mentioned end it is necessary to keep analytical Purchases and Sales Books. The following are specimens—

DEPARTMENTAL PURCHASES BOOK

Date	Name	Led. Fol.	Total	Dept. 1	Dept. 2	Dept. 3	Dept. 4

DEPARTMENTAL SALES BOOK

Date	Name	Led. Fol.	Total	Drapery	Hosiery	Out-fitting	Boots

The headings of the columns vary; sometimes the departments are lettered, e.g. "A," "B," "C," etc., sometimes numbered, sometimes named, as in the two examples. Whenever analysis is resorted to, there must always be a "Total" column. The object of this is to afford a check upon the arithmetical accuracy of the tabular columns. By means of cross casting it is possible to see whether the total of the analysis columns is equal to the sum of the "total" column. This will also prove whether any item has been omitted in the analysis. Similar rulings will be required for the Purchases Returns Book and the Sales Returns Book.

Procedure in Ledger. Where a Departmental Trading Account is not desired, the Ledger Account of each department will be in simple form, thus—

Dr. "A" DEPARTMENT *Cr.*

To Stock . . .			By Sales . . .		
,, Purchases . .			,, Returns Outwards		
,, Carriage . .			,, Stock . . .	c/d	
,, Returns Inwards .					
,, Wages . .					
,, P. & L. (gross profit) . .					
To Balance . .	b/d				

Where a Departmental Trading Account is required, the Ledger Accounts will be more elaborate. It will be necessary to open separate Stock, Purchases, Sales, Returns, and Wages Accounts for each department or class of goods. Sometimes the departmental principle is adopted even in the Ledger Accounts themselves, thus—

Dr. STOCK *Cr.*

Date	Particulars	Dept. A	Dept. B	Total	Date	Particulars	Dept. A	Dept. B	Total

This form would not be applicable where many departments were kept separately, as it would necessitate a Ledger of a very inconvenient size. As a further development, and where the departments are very numerous, it would be necessary to have a separate Ledger for each department.

Advantages of Departmental Accounts. By means of departmental accounts it becomes possible, at balancing time, to ascertain the *gross* profit of each department or class of goods. Some businesses are content with this. Others go further and analyse all the expenses as well, in order to arrive at the *net* profit of each department or class of goods. The business, taken as a whole, might be yielding a satisfactory net profit, and yet one particular department might be running at a loss. Only departmental Profit and Loss Accounts will reveal this fact. Further, the results of different years may be collected and compared, and much valuable information gained therefrom. Such decided advantages, therefore, fully compensate for the extra trouble involved in analysing the transactions, and in keeping additional Ledger Accounts.

Inter-Departmental Transactions. Purchases from, and Sales to, other departments must be carefully recorded. They are sometimes added to the respective Purchases and Sales Accounts, and sometimes dealt with in separate accounts. Much depends on the price at which such transfers are charged, whether at cost, or at

cost plus a small departmental profit. When such transfers of goods are made at cost, they should certainly not be credited as Sales by the issuing department. It is better to credit them to a separate account entitled "Goods issued to Other Departments." At balancing time, these transfers must be debited to the Trading Account of the receiving department, and credited to the Trading Account of issuing department, that is, if they have not already been merged in the departmental Purchases and Sales Accounts.

Allocation of Indirect Expenses. Indirect or selling expenses may be allocated between the departments in four different ways: (1) by means of direct analysis; (2) according to the amount of floor space occupied by each department; (3) in proportion to the turnover of each department; (4) according to the number of articles sold. It is seldom possible to arrive at the exact amount by means of direct analysis, and the turnover method is considered to yield the fairest results, bearing in mind the fact that the great majority of overhead expenses are fixed charges.

Different Methods of Allocation for Items in the same Trading and Profit and Loss Account. Sometimes the allocation of expenses is dealt with before the Trading Accounts are prepared. This is generally the case where different methods of allocation are used for different items. Thus, Rent, Rates, and Taxes may be apportioned according to the floor space occupied by each department. Wages and Salaries are generally analysed. Insurance Premiums may be apportioned according to the ratio that each department's stock bears to the total departmental stocks insured. Workmen's Compensation Insurance may be divided in the ratio that each department's wages and salaries bear to the total departmental wages and salaries. The apportionment of Printing and Stationery is generally the result of direct analysis, the amounts issued being charged to the departments by the storekeeper. Carriage, Postage, Repairs, Office Expenses are sometimes allocated according to the results of direct analysis, and sometimes in fixed or agreed proportions. The amount of Discounts Allowed, including Reserves for such discounts, is often allocated between the departments in the ratio that each department's sales bear to the total departmental sales for the year. The amount of Discounts Received, including the Reserves for such discounts, is then, likewise, allocated between the departments in the ratio that each department's purchases bear to the total departmental purchases for the period. Depreciation can, sometimes, be charged direct to the departments according to the value of the assets held by them. Often, however, Depreciation, Interest on Capital, Legal Expenses, Bank Charges, and other items cannot be satisfactorily apportioned; and, in such cases, they are usually left intact, and finally carried to a General Profit and Loss Account.

1. Allocation of Expenses by means of Direct Analysis.

Example. X, Y, and Z are equal partners in a business, and are entitled to interest at 5 per cent per annum on their respective Capitals before the division of profits. All other adjustments have been made, and from the following particulars you are requested to draw up Trading and Profit and Loss Accounts and Balance Sheet, showing the gross and net profits of each department, and the percentages of gross and net profit on turnovers respectively—

	£	s.	d.
Cash at Bankers	2,029	14	9
,, in hand	620	15	5
,, Creditor	1,500	–	–
Horses, Carts, etc.	625	15	6
Fixtures, Fittings, etc.—			
A Dept.	4,726	10	5
B ,,	3,841	9	11
Capital A/cs—			
X (1st Jan.)	25,971	5	8
Y (,,)	18,432	10	7
Z (,,)	15,617	3	10
Drawings A/cs—			
X	2,500	–	–
Y	1,750	–	–
Z	1,540	–	–

	A Department			B Department		
	£	s.	d.	£	s.	d.
Stock (1st Jan.)	37,418	10	5	7,672	14	5
Purchases	65,158	9	2	38,516	3	10
Sales	89,527	16	6	47,732	17	6
Trade Expenses	12,107	13	4	5,462	15	6
Discounts Allowed	2,517	6	2	1,743	2	8
,, Received	2,067	13	8	1,169	15	4
Housekeeping Expenses	1,975	10	10	1,268	8	9
Sundry Creditors	6,162	19	2	4,568	17	7
,, Debtors	16,703	12	5	4,572	6	4
Stock, 31st December	35,463	15	7	9,871	13	8

2. Allocation of Expenses according to Floor Space Occupied.

Example. Messrs. Reed and Stevens commenced a retail cash business on 1st July with a stock of goods divided as follows: No. 1 Dept., £326 15s. 11d.; No. 2 Dept., £458 9s. 3d. No. 3

TRADING AND PROFIT AND LOSS ACCOUNTS—For the Year Ended 31st December, 19..

Dr.	A Dept.	B Dept.	Total	Cr.	A Dept.	B Dept.	Total
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Stock, 1st January	37,418 10 5	7,672 14 5	45,091 4 10	By Sales	89,527 16 6	47,732 17 6	137,260 14 –
„ Purchases	65,158 9 2	38,516 3 10	103,674 13 –	„ Stock, 31st December	35,463 15 7	9,871 13 8	45,335 9 3
„ Balance (Gross Profit)	22,414 12 6	11,415 12 11	33,830 5 5				
	£124,991 12 1	£57,604 11 2	£182,596 3 3		£124,991 12 1	£57,604 11 2	£182,596 3 3
To Trade Expenses	12,107 13 4	5,462 15 6	17,570 8 10	By Gross Profit b/d	22,414 12 6	11,415 12 11	33,830 5 5
„ Housekeeping Expenses	1,975 10 10	1,268 8 9	3,243 19 7	„ Discounts Received	2,067 13 8	1,169 15 4	3,237 9 –
„ Discounts Allowed	2,517 6 2	1,743 2 8	4,260 8 10				
„ Balance (departmental profits)	7,881 15 10	4,111 1 4	11,992 17 2				
	£24,482 6 2	£12,585 8 3	£37,067 14 5		£24,482 6 2	£12,585 8 3	£37,067 14 5

GENERAL PROFIT AND LOSS ACCOUNT—For the Year Ended 31st December, 19..

Dr.	£ s. d.	£ s. d.	Cr.	£ s. d.	£ s. d.
To Interest on Capital—			By Departmental Profits—		
X: 5% £25,971 5s. 8d.	1,298 11 3		"A" Dept.	7,881 15 10	
Y: 5% £18,432 10s. 7d.	921 12 6		"B" „	4,111 1 4	
Z: 5% £15,617 3s. 10d.	780 17 2	3,001 – 11			11,992 17 2
„ Balance to Capital A/cs—					
X: ⅓	2,997 5 5				
Y: ⅓	2,997 5 5				
Z: ⅓	2,997 5 5	8,991 16 3			
		£11,992 17 2			£11,992 17 2

Percentage of Gross Profit on Turnover: "A" Dept., 25·04; "B" Dept., 23·92 (22415 × 100 ÷ 89528 and 11416 × 100 ÷ 47733).
„ „ Net „ „ "A" „ 8·80; "B" „ 8·61 (7882 × 100 ÷ 89528 and 4111 × 100 ÷ 47733).

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors—						
"A" Dept.	6,162	19	2			
"B" ,,	4,568	17	7			
				10,731	16	9
Cash Creditor				1,500	-	-
Capital A/cs—						
X, 1st Jan.	25,971	5	8			
Add Interest	1,298	11	3			
,, Share of Profit	2,997	5	5			
	30,267	2	4			
Less Drawings	2,500	-	-			
				27,767	2	4
Y, 1st Jan.	18,432	10	7			
Add Interest	921	12	6			
,, Share of Profit	2,997	5	5			
	22,351	8	6			
Less Drawings	1,750	-	-			
				20,601	8	6
Z, 1st Jan.	15,617	3	10			
Add Interest	780	17	2			
,, Share of Profit	2,997	5	5			
	19,395	6	5			
Less Drawings	1,540	-	-			
				17,855	6	5
			£	78,455	14	-

Assets	£	s.	d.	£	s.	d.
Cash at Bank	2,029	14	9			
Cash in hand	620	15	5			
				2,650	10	2
Sundry Debtors—						
"A" Dept.	16,703	12	5			
"B" ,,	4,572	6	4			
				21,275	18	9
Stock—						
"A" Dept.	35,463	15	7			
"B" ,,	9,871	13	8			
				45,335	9	3
Fixtures and Fittings—						
"A" Dept.	4,726	10	5			
"B" ,,	3,841	9	11			
				8,568	-	4
Horses and Carts				625	15	6
			£	78,455	14	-

Dept., £426 17s. 11d.; No. 4 Dept., £501 10s. 5d.; No. 5 Dept., £673 4s. 8d. They also had Cash, £552 9s. 4d.; Fixtures and Fittings, £560 12s. 6d.; and equal amounts of Capital.

On 31st December, the summary of the Cash Book for the half-year was as follows—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
No. 1 Dept.	1,256	3	11	No. 1 Dept.	896	4	3
No. 2 ,,	1,578	7	2	No. 2 ,,	792	10	6
No. 3 ,,	1,156	16	5	No. 3 ,,	814	3	7
No. 4 ,,	1,237	10	6	No. 4 ,,	516	16	6
No. 5 ,,	2,178	15	7	No. 5 ,,	1,703	2	8
				By General Expenses	720	15	-
				,, Drawings—			
				Reed	250	-	-
				Stevens	250	-	-

The following purchases are unpaid on 31st December: No. 1 Dept., £320 19s. 2d.; No. 2 Dept., £625 7s. 8d.; No. 3 Dept., £159 1s. 11d.; No. 4 Dept., £246 14s. 10d.; No. 5 Dept., £226 1s. 2d. Six months' Rent, £120, is also outstanding. The Stocks on hand at the same date are: No. 1 Dept., £516 10s. 2d.; No. 2 Dept.,

£617 3s. 4d.; No 3 Dept., £598 16s. 8d.; No. 4 Dept., £373 11s. 7d.; No. 5 Dept., £816 17s. 2d.

Draw up Departmental Trading and Profit and Loss Accounts, adding to the Expenses 20 per cent per annum for Depreciation of Fixtures. Divide the Expenses thus: No. 1 Dept., $\frac{5}{45}$ths; No. 2 Dept., $\frac{7}{45}$ths; No. 3 Dept., $\frac{9}{45}$ths; No. 4 Dept., $\frac{11}{45}$ths; No. 5 Dept., $\frac{13}{45}$ths Draw up also a Balance Sheet, allowing Interest on Capital at 5 per cent per annum, and dividing profits equally.

Dr. DEPARTMENTAL
FOR THE HALF-YEAR

	No. 1 Dept.			No. 2 Dept.			No. 3 Dept.			No. 4 Dept.			No. 5 Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st July .	326	15	11	458	9	3	426	17	11	501	10	5	673	4	8	2,386	18	2
" Purchases .	1,217	3	5	1,417	18	2	973	5	6	763	11	4	1,929	3	10	6,301	2	3
" Balance (being Gross Profit c/d).	228	14	9	319	3	1	355	9	8	346	-	4	393	4	3	1,642	12	1
£	1,772	14	1	2,195	10	6	1,755	13	1	1,611	2	1	2,995	12	9	10,330	12	6

Dr. DEPARTMENTAL PROFIT
FOR THE HALF-YEAR

	No.1 Dept.			No. 2 Dept.			No. 3 Dept.			No. 4 Dept.			No. 5 Dept.			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Sundry Expenses .	80	1	8	112	2	4	144	3	-	176	3	8	208	4	4	720	15	-
" Rent . . .	13	6	8	18	13	4	24	-	-	29	6	8	34	13	4	120	-	-
" Depreciation . .	6	4	7	8	14	5	11	4	3	13	14	1	16	13	11	56	1	3
" Departmental Profits to General Profit and Loss A/c .	129	1	10	179	13	-	176	2	5	126	15	11	134	2	8	745	15	10
£	228	14	9	319	3	1	355	9	8	346	-	4	393	4	3	1,642	12	1

NOTE 1. The Original Capital is arrived at as follows: Stock, £2,386 18s. 2d. + Cash £552 9s. 4d. + Fixtures £560 12s. 6d. = £3,500 = £1,750 each partner.

NOTE 2. The final Cash balance is obtained as follows: Balance 1st July £552 9s. 4d. + Receipts £7,407 13s. 7d. – Payments £5,943 12s. 6d. = £2,016 10s. 5d.

NOTE 3. The Creditors are composed of the amounts owing for the unpaid Purchases of the different departments at 31st December, which when totalled amount to £1,578 4s. 9d.

GENERAL PROFIT AND LOSS ACCOUNT
FOR THE HALF-YEAR ENDED 31ST DECEMBER, 19..

Dr.	£ s. d.	£ s. d.		£ s. d.	Cr. £ s. d.
To Interest on Capital—			By Departmental Profits—		
Reed, 2½% £1,750	43 15 –		No. 1 Dept.	129 1 10	
Stevens 2½% £1,750	43 15 –	87 10 –	No. 2 ,,	179 13 –	
,, Balance (net profit)—			No. 3 ,,	176 2 5	
Reed, Capital A/c ½	329 2 11		No. 4 ,,	126 15 11	
Stevens, Capital A/c ½	329 2 11	658 5 10	No. 5 ,,	134 2 8	745 15 10
		£ 745 15 10			£ 745 15 10

TRADING ACCOUNTS
ENDED 31ST DECEMBER, 19..

	No. 1 Dept.	No. 2 Dept.	No. 3 Dept.	No. 4 Dept.	No. 5 Dept.	Total (Cr.)
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
By Sales	1,256 3 11	1,578 7 2	1,156 16 5	1,237 10 6	2,178 15 7	7,407 13 7
,, Stock, 31st Dec.	516 10 2	617 3 4	598 16 8	373 11 7	816 17 2	2,922 18 11
£	1,772 14 1	2,195 10 6	1,755 13 1	1,611 2 1	2,995 12 9	10,330 12 6

AND LOSS ACCOUNTS
ENDED 31ST DECEMBER, 19..

	No. 1 Dept.	No. 2 Dept.	No. 3 Dept.	No. 4 Dept.	No. 5 Dept.	Total (Cr.)
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
By Gross Profit b/d	228 14 9	319 3 1	355 9 8	346 – 4	393 4 3	1,642 12 1
£	228 14 9	319 3 1	355 9 8	346 – 4	393 4 3	1,642 12 1

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.	£ s. d.
Creditors		1,578 4 9	Cash		2,016 10 5
Outstanding Rent		120 – –	Stock—		
Capital A/cs—			No. 1 Dept.	516 10 2	
Reed, 1st July	1,750 – –		No. 2 ,,	617 3 4	
Add Interest	43 15 –		No. 3 ,,	598 16 8	
,, Share of Profit	329 2 11		No. 4 ,,	373 11 7	
			No. 5 ,,	816 17 2	
	2,122 17 11				2,922 18 11
Less Drawings	250 – –	1,872 17 11	Fixtures and Fittings	560 12 6	
			Less Depreciation	56 1 3	504 11 3
Stevens, 1st July	1,750 – –				
Add Interest	43 15 –				
,, Share of Profit	329 2 11				
	2,122 17 11				
Less Drawings	250 – –	1,872 17 11			
		£ 5,444 – 7			£ 5,444 – 7

3. Allocation of Expenses according to Turnover.

Example. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, 19.., (see next page), apportioning the expenses between the departments in proportion to their respective turnovers—

	£	s.	d.
Stock (Raw Materials and Finished Goods)—			
A Dept., 1st January	7,954	18	11
B " "	6,987	12	10
Purchases (Raw Materials), A Dept.	19,846	15	3
" " " B "	14,895	17	11
Sales A Dept.	48,994	2	7
" B "	32,662	14	11
Exhibition Expenses	1,915	16	8
Wages A Dept.	3,987	14	10
" B "	1,989	19	9
Travellers' Commission and Expenses	5,376	17	6
Rent, Rates, and Taxes	987	12	6
Furniture and Fixtures	1,275	–	–
Salaries	3,579	11	8
Working Plant and Utensils	55,595	–	–
Insurance (£35 of this is prepaid)	808	10	5
Bad Debts Reserve, 1st January	748	10	7
Horses, Harness, Motor Vans and Vehicles	7,987	1	8
Directors' Fees	2,025	–	–
Sundry Debtors	22,953	10	–
Postage, Telegrams, and Bill Stamps	917	8	9
Difference in Exchange (*Dr.* balance)	38	18	4
Sundry Expenses	2,796	4	7
Bad Debts	828	14	7
Stationery, Sample Books, and Catalogues (£345 of these are still in stock)	3,376	12	6
Debenture Interest	630	–	–
Discounts on Purchases	1,748	13	9
" " Sales	3,268	15	5
Stable and Motor Expenses	637	3	9

Depreciate Working Plant, etc., 10 per cent; Horses, Harness, Motor Vans, etc., 20 per cent; Furniture, $2\frac{1}{2}$ per cent. Make a Reserve of 5 per cent on Sundry Debtors, for Bad Debts. Stock of Raw Materials and Finished Goods on 31st December, 19.., was—

A Dept., £9,895 18s. 11d.; B Dept., £7,958 12s. 10d.

Decimalization of Money. Formidable as the above task of apportioning the expenses according to the turnovers appears, it is not nearly so when the proper way of setting about it is known. The proper way, in this case, is to decimalize *at sight* approximately. Numbers of senior students have not touched arithmetic for many years, and are, therefore, unacquainted with this modern process. So it is proposed to give a short explanation of it. The explanation will be strictly limited to what is necessary in order to understand the following worked solutions, as it is not the province of this work

TRADING AND PROFIT AND LOSS ACCOUNT

For the Year Ended 31st December, 19..

Dr.

	A Dept. £	s.	d.	B Dept. £	s.	d.	Total £	s.	d.
To Stock 1st January	7,954	18	11	6,987	12	10	14,942	11	9
,, Purchases	19,846	15	3	14,895	17	11	34,742	13	2
,, Wages	3,987	14	10	1,989	19	9	5,977	14	7
,, Balance (Gross Profit)	27,100	12	6	16,747	17	3	43,848	9	9
£	58,890	1	6	40,621	7	9	99,511	9	3
	$\frac{3}{5}$			$\frac{2}{5}$					
To Travellers' Commission and Expenses	3,226	2	6	2,150	15	–	5,376	17	6
,, Rent, Rates, and Taxes	592	11	6	395	1	–	987	12	6
,, Salaries	2,147	15	–	1,431	16	8	3,579	11	8
,, Insurance (£808 10s. 5d. – £35)	464	2	3	309	8	2	773	10	5
,, Directors' Fees	1,215	–	–	810	–	–	2,025	–	–
,, Postage, Telegrams and Bill Stamps	550	9	3	366	19	6	917	8	9
,, Exhibition Expenses	1,149	10	–	766	6	8	1,915	16	8
,, Sundry Expenses	1,677	14	9	1,118	9	10	2,796	4	7
,, Stationery and Samples (£3,376 12s. 6d. – £345)	1,818	19	6	1,212	13	–	3,031	12	6
,, Discounts on Sales	1,961	5	3	1,307	10	2	3,268	15	5
,, Stable and Motor Expenses	382	6	3	254	17	6	637	3	9
,, Debenture Interest	378	–	–	252	–	–	630	–	–
,, Difference in Exchange	23	7	–	15	11	4	38	18	4
,, Bad Debts	497	4	9	331	9	10	828	14	7
,, ,, ,, Reserve (£1,147 13s. 6d. – £748 10s. 7d.)	239	9	9	159	13	2	399	2	11
,, Depreciation—									
Working Plant, 10% £55,595	3,335	14	–	2,223	16	–	5,559	10	–
Horses, Motors, etc., 20% £7,987 1s. 8d.	958	9	–	638	19	4	1,597	8	4
Furniture, 2½% £1,275	19	2	6	12	15	–	31	17	6
Balance (Net Profit)	7,512	13	6	3,689	4	7	11,201	18	1
£	28,149	16	9	17,447	6	9	45,597	3	6

Cr.

	A Dept. £	s.	d.	B Dept. £	s.	d.	Total £	s.	d.
By Sales	48,994	2	7	32,662	14	11	81,656	17	6
,, Stock, 31st December	9,895	18	11	7,958	12	10	17,854	11	9
£	58,890	1	6	40,621	7	9	99,511	9	3
By Balance (Gross Profit)	27,100	12	6	16,747	17	3	43,848	9	9
,, Discounts on Purchases	1,049	4	3	699	9	6	1,748	13	9
£	28,149	16	9	17,447	6	9	45,597	3	6

Note—
"A" Dept. = $\frac{3}{5}$ or 60%
"B" ,, = $\frac{2}{5}$ or 40%

to teach arithmetic proper. To familiarize themselves with modern processes and up-to-date methods in commercial arithmetic, students cannot do better than procure a copy of *Pitman's Complete Mercantile Arithmetic.*

One shilling = $\frac{1}{20}$ of a £, or £0·05. One farthing = $\frac{1}{960}$ of a £, but for convenience of calculation, it is taken as $\frac{1}{1000}$ of a £, as ·001 or £0·001. This latter decimal gives rise to a slight inaccuracy in calculations. For example, 3d. = 12 farthings = ·012 (·001 × 12); but $\frac{3}{240} = \frac{1}{80}$ = ·0125, or ·013 approximately to three places of decimals. Again, 9d. = 36 farthings = ·036 (·001 × 36); but $\frac{9}{240} = \frac{3}{80}$ = ·0375, or ·038 approximately to three places of decimals. An adjustment has consequently to be made in order to obviate these errors.

Rule for Decimalizing Fractions of a £. (1) Multiply the pence by 4 to bring them to farthings, and add on any farthings in the sum; if the result is 12 or over, add on 1; if 36 or over, add on 2. Put down the unit figure of the result as the third place decimal, and carry the ten's figure.

(2) Multiply the shillings by 5, and add on the figure carried from the pence operation, and the result will be the first and second place decimals.

Remember, there must be *three* places of decimals whenever there are any pence in the sum to be decimalized, and, therefore, if the shillings and pence yield only two place decimals, a *nought* must be put in front of them.

Example 1. What decimal of a £ is 17s. 3¾d.? 3 × 4 + 3 = 15; 15 + 1 = 16, 6 and carry 1. 17 × 5 + 1 = 86. Ans. £·866.

Example 2. What decimal of a £ is 1s. 2½d.? 2 × 4 + 2 = 10, 0 and carry 1. 1 × 5 + 1 = 6. Ans. £0·060, *not* £0·60.

Application to Worked Example. The turnovers of the departments must be decimalized. "A" Dept. = £48,994·129, "B" Dept. = £32,662·746, Total turnover = £81,656·875.

81656·875) 48994·129 (·6; and 81656·875)32662·746(·4

·6 = $\frac{6}{10}$ths = $\frac{3}{5}$ths; and ·4 = $\frac{4}{10}$ths = $\frac{2}{5}$ths.

4. Allocation of Expenses according to Number of Articles Sold.

Example. The Toilet Requisites Co. manufacture two specialities, namely, "Venus" Soap and "Hebe" Scent. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ending 30th June—

	£	s	d.
Stocks of Raw Materials, Soap (1st July)	625	15	6
" " " " (30th June)	826	4	10
" " " Scent (1st July)	234	13	10
" " " " (30th June)	275	6	9

	£	s.	d.
Stocks of Manufactured Soap (1st July)	537	3	11
,, ,, ,, (30th June)	872	3	5
,, ,, Scent (1st July)	216	17	5
,, ,, ,, (30th June)	266	10	8
,, Labels, Boxes, Bottles, etc., Soap (1st July)	135	9	4
,, ,, ,, ,, ,, (30th June)	207	8	9
,, ,, ,, Scent (1st July)	172	6	9
,, ,, ,, ,, ,, (30th June)	135	4	6
Purchases of Raw Materials, Soap	516	12	8
,, ,, ,, Scent	407	10	2
,, Labels, Boxes, Bottles, etc., Soap	323	14	5
,, ,, ,, ,, Scent	243	15	6
Wages, Soap Dept.	523	8	7
,, Scent ,,	602	13	4
Manufacturing Expenses, Soap Dept.	56	13	8
,, ,, Scent ,,	198	7	8
Salaries	326	3	10
Advertising	3,619	14	6
Printing and Stationery	447	6	5
Postage	326	17	8
Rent, Rates, and Taxes	665	16	6
Sundry Expenses	279	4	3
Sales of Soap, 354,741 cakes @ 4½d. per cake.			
,, Scent, 61,638 bottles @ 1s. 3d. per bottle.			

The undivided expenses are to be apportioned between the two departments according to the *number* of cakes of soap or bottles of scent sold. (See following page.)

Apportionment of Expenses according to Number of Articles Sold. This appears to be a formidable task, and to a certain extent it is. Resort to decimals is necessary; other methods of calculation are quite out of the question, owing to the huge multiplication and division sums involved:

$$354{,}741 + 61{,}638 = 416{,}379.$$

$$\frac{354{,}741}{416{,}379} = \cdot 851967; \text{ and } \frac{61{,}638}{416{,}379} = \cdot 148033$$

In order to obtain absolute accuracy it is necessary to take at least *six* decimal places. In approximating at the sixth decimal place, the student must be careful to see that the two decimal parts when added together equal unity; that they are neither *greater* nor *less*. Thus, ·148033 + ·851967 = 1. We could not take ·148034 and ·851967, or ·148033 and ·851966. Each of the amounts to be apportioned must be decimalized, and then multiplied by its appropriate decimal part of the total number of articles sold. For example, Salaries £326 3s. 10d. will be apportioned thus: £326·192 × ·851967 = £277 18s. 1d. for Soap Dept.; £326·192 × ·148033 = £48 5s. 9d. for Scent Dept.

TRADING AND PROFIT AND LOSS ACCOUNT

For the Year Ended 30th June, 19..

Dr.

	Soap	Scent	Total
	£ s. d.	£ s. d.	£ s. d.
To Stocks (1st July)—			
Raw Materials	625 15 6	234 13 10	860 9 4
Manufactured Goods	537 3 11	216 17 5	754 1 4
Labels, Bottles, Boxes, etc.	135 9 4	172 6 9	307 16 1
,, Purchases, etc.—			
Raw Materials	516 12 8	407 10 2	924 2 10
Labels, Bottles, Boxes, etc.	323 14 5	243 15 6	567 9 11
,, Wages	523 8 7	602 13 4	1,126 1 11
,, Manufacturing Expenses	56 13 8	198 7 8	255 1 4
,, Balance (Gross Profit)	5,838 6 10	2,453 4 9	8,291 11 7
£	8,557 4 11	4,529 9 5	13,086 14 4
To Salaries	277 18 1	48 5 9	326 3 10
,, Advertising	3,083 17 9	535 16 9	3,619 14 6
,, Printing and Stationery	381 2 1	66 4 4	447 6 5
,, Postage	278 9 11	48 7 9	326 17 8
,, Rent, Rates, and Taxes	567 5 3	98 11 3	665 16 6
,, Sundry Expenses	237 17 7	41 6 8	279 4 3
,, Balance (Net Profit)	1,011 16 2	1,614 12 3	2,626 8 5
£	5,838 6 10	2,453 4 9	8,291 11 7

Cr.

	Soap	Scent	Total
	£ s. d.	£ s. d.	£ s. d.
By Sales—			
354,741 Cakes Soap @ 4½d.	6,651 7 11		
61,638 bottles Scent @ 1s. 3d.		3,852 7 6	10,503 15 5
,, Stocks—			
Raw Materials	826 4 10	275 6 9	1,101 11 7
Manufactured Goods	872 3 5	266 10 8	1,138 14 1
Labels, Boxes, Bottles, etc.	207 8 9	135 4 6	342 13 3
£	8,557 4 11	4,529 9 5	13,086 14 4
By Gross Profits b/d	5,838 6 10	2,453 4 9	8,291 11 7
£	5,838 6 10	2,453 4 9	8,291 11 7

Modern Methods of Calculation. In working this and similar examples the student should employ modern methods, which are easily acquired, and which undoubtedly effect a great saving of time. The striking contrast between the old and the modern method can be seen from the following, which exemplifies the working of the first multiplication sum—

	Old Method		Modern Method	
(*a*)	326·192	(*a*)	32·61920	
	·148033		1·48033	
	978576		32·619	20
	978576		13·047	68
	26095360		2·609	54
	1304768		9	78
	326192			98
	48·287180336		48·287	18
(*b*)	326·192	(*b*)	32·61920	
	·851967		8·51967	
	2283344		260·953	60
	1957152		16·309	60
	2935728		·326	19
	326192		·293	57
	1630960		19	57
	2609536		2	28
	277·904819664		277·904	81

The multiplier has first of all to be put into "standard form," and a corresponding adjustment made in the multiplicand. Then two extra places of decimals must be allowed for beyond the number required, which, in this case, is three, as this number will give us the £ s. d. result to the nearest farthing. A fuller explanation of this method will be found in the arithmetic textbook we have previously mentioned.

Conversion of Decimals of a £ into Money. When multiplying as explained above, the result obtained will be pounds and decimal fractions of a pound. The latter must be converted into shillings and pence *at sight.*

Rule. 1. Take answer to only four places of decimals. Approximate the third figure, that is, if the fourth figure is 5 or over, then make the third decimal figure 1 more.

2. Divide the first two figures by 5, and the result will be shillings.

3. Take the remainder (if any) and place the third decimal figure by the side of it; if the number is 13 or more, subtract 1; if 38 or more, subtract 2. Call the amount farthings, divide by 4, and the result will be pence and fractions of a penny.

Example 1. The result of the first multiplication, £326·192 × ·851967 = £277·9048 to four places of decimals. This equals £277·905 to three places approximately. 90 ÷ 5 = 18s.; 5 ÷ 4 = $1\frac{1}{4}$d. Ans. = £277 18s. $1\frac{1}{4}$d.

Example 2. The result of the second multiplication, £326·192 × ·148033 = £48·2871 to four places of decimals. This equals £48·287 to three places approximately. 28 ÷ 5 = 5s., and 3 over. Three together with 7 = 37; 37 − 1 = 36; 36 ÷ 4 = 9d. Ans. = £48 5s. 9d.

Separate Trading Accounts for each Department. Where the same item of expenditure or charge is common to each department, a tabular Trading and Profit and Loss Account is advantageous. But where different expenses and charges are incurred in the various departments, separate Trading Accounts must be prepared for each.

Example. From the following particulars of the Motor Car Engineering Works, Ltd., prepare departmental Trading Accounts and a general Profit and Loss Account for the year ended 31st December, 19..—

	£	s.	d.
Fixtures and Fittings	75	13	9
Loose Plant and Tools	225	12	7
Sundry Debtors	2,925	4	5
Cars bought for re-sale	12,500	–	–
Carriage on Cars sold	115	4	6
Management Expenses	510	13	8
Profit and Loss A/c (undistributed balances, 1st Jan.)	650	5	10
Bad Debts	50	3	7
Petrol, Oil, etc., used	625	16	5
Charged to Customers for Hire of Cars	405	12	6
Sales of Motor Cars	14,750	–	–
Charged to Customers for Repairs to Cars	950	13	8
Accessories (Tyres, Tubes, etc.) used	2,350	4	10
Stock of Cars for Hiring Out	650	15	11
,, Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of current year	375	13	8
Expenses of Hire Cars	225	6	3
Sales of Petrol, Oil, etc.	975	14	10
Garage Rents received	90	9	8
Debenture Interest	125	–	–
Repairs to Plant, etc.	27	6	6
Sales of Accessories (Tyres, Tubes, etc.)	2,735	15	3
Wages in Yard	156	10	8
Cost of Repairs to Cars (Wages, Materials, etc.)	875	8	10
Bad Debts Reserve, 1st Jan.	120	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	166	10	5

The following adjustments are necessary: Bad Debts Reserve, 5 per cent Debtors; Depreciation: Loose Plant and Tools 20 per cent; Fixtures and Fittings, 5 per cent; Cars for hire, 20 per cent; the manager is entitled to a Commission of 5 per cent of the net profit after charging this Commission.

MOTOR CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Purchases . . .	12,500	–	–	By Sales . . .	14,750	–	–
,, Balance (Gross Profit)	2,250	–	–				
£	14,750	–	–	£	14,750	–	–

ACCESSORIES TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Accessories used .	2,350	4	10	By Sales of Accessories .	2,735	15	3
,, Petrol, Oil, etc., used	625	16	5	,, Sales of Petrol, Oil, etc. . . .	975	14	10
,, Balance (Gross Profit)	735	8	10				
	£3,711	10	1		£3,711	10	1

REPAIRS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Cost of Repairing Cars	875	8	10	By Amounts Charged to Customers for Repairs to Cars . . .	950	13	8
,, Balance (Gross Profit)	75	4	10				
	£950	13	8		£950	13	8

HIRE CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Expense of Hire Cars	225	6	3	By Charges to Customers for Hire of Cars .	405	12	6
,, Depreciation of Hire Cars, 20%, £650 15s. 11d. . .	130	3	2				
,, Balance (Gross Profit)	50	3	1				
	£405	12	6		£405	12	6

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Carriage on Cars sold	115	4	6	By Trading A/cs (gross profits)—			
,, Management Expenses	510	13	8	Motor Cars	2,250	–	–
,, Bad Debts	50	3	7	Accessories	735	8	10
,, Repairs to Plant, etc	27	6	6	Repairs	75	4	10
,, Debenture Interest	125	–	–	Hire Cars	50	3	1
,, Wages in Yard	156	10	8	,, Garage Rents	90	9	8
,, Bad Debts Reserve—				,, Sundry Receipts	166	10	5
5% £2,925 4s. 5d. £146 5 3							
Less Old Reserve 120 – –							
	26	5	3				
,, Depreciation—							
Loose Tools and Plant, 20% £225 12s. 7d.	45	2	6				
Fixtures, etc., 5% £75 13s. 9d.	3	15	8				
,, Manager's Commission, $\frac{5}{105}$ of £2,307 14s. 6d.	109	17	10				
,, Balance (Net Profit) to Appropriation A/c	2,197	16	8				
	£3,367	16	10		£3,367	16	10

Note re Manager's Commission. This is an item over which students constantly stumble. As the net profit is not yet known, the calculation must be made on the gross amount distributable, namely, $\frac{5}{105}$ of £2,307 14s. 6d.; which, as can be seen, is equal to $\frac{5}{100}$ of £2,197 16s. 8d.

Percentages in Accounts. The usual form of Trading and Profit and Loss Account supplies the executives of a business with important periodical data, particularly the Gross and Net Profit or Loss, and the monetary value of each component, but the most important factor of all, i.e. *trend*, cannot be indicated without some further operation. This can be, and is widely, done by the insertion of the figures for the corresponding period of the previous year, but this is still far from satisfactory as it will present only half the picture. For the chief executive of a business to know whether any one of the items has increased or decreased in amount is really only of secondary importance as two simple examples will show.

Example 1.

	1932	1933
Sales	£145,962	£157,928
Manufacturing Wages	49,874	52,864

An increase in wages would appear to be a natural movement and in keeping with the rise in turnover, but these figures do not show that in actual fact the higher figure is the better of the two as it represents 33·35 per cent of the sales, whilst the 1932 figure is 34·17 per cent of the sales.

Example 2.

	1939	1940
Gross Profit	£37,748	£57,491
Travellers' Commission and Expenses . . .	£2,635 = 6·98 per cent	£4,090 = 7·12 per cent

This again will show that the figures themselves, as such, may give a wrong impression, but by indicating the true relationship in the form of a percentage, trend is shown. It is quite the general practice for each figure in the Trading Account to be expressed as a percentage on the turnover.

Dr. TRADING ACCOUNT *Cr.*

	Per cent	£		Per cent	£
To Stock . .	18·45	3,438	By Sales . .	100·00	18,645
,, Purchases .	52·26	9,742	,, Stock . .	22·48	4,192
,, Manufacturing Wages . .	26·20	4,890			
,, Gross Profit .	25·57	4,767			
	122·48	£22,837		122.48	£22,837

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£		Per cent	£
To Salaries	657	By Gross Profit .	25·57	4,767
,, Rent and Rates. . .	275			
,, Advertising	759			
,, Travellers' Expenses and Commission . . .	533			
,, Net Profit	2,543			
	£4,767			£4,767

QUESTIONS

1. Explain what is meant by "Departmental" Accounts.
2. Submit rulings of a Purchases Book suitable for a business having four departments.
3. Submit rulings of a Sales Book suitable for a business dealing in Tea, Coffee, Cocoa, and Sugar, each of which is a separate department.
4. Explain how the Ledger is affected by the keeping of "departmental" accounts. Give examples.
5. State briefly the advantages to be derived from a system of "departmental" accounts.
6. Are "departmental" accounts adopted with a view to ascertaining the *gross* or the *net* profit of each department?
7. What difficulties are there in the way of arriving at the "net" profit of each department?

8. What is meant by the phrase "allocation of indirect expenses"?

9. What methods are in vogue with reference to the allocation of indirect expenses as between different departments? Which is considered to yield the fairest result?

10. When it is not possible to make a tabular Trading Account of several departments owing to the items being different in each, what procedure must be resorted to?

EXERCISE XI

1. A manufacturer, whose business is divided into the three departments of knitted mufflers, sailors' jerseys, and woollen gloves, adopts the following method of recording his sale transactions. When goods are dispatched, an Invoice is made out in an Invoice Carbon Copy Book, and sent to the purchaser. The Carbon Copy Book is then handed to the Ledger Clerk, who writes the Ledger folio of the customer's account under the total of the Copy Invoice, and posts the item to the debit of the customer's account in the Ledger thus—

Invoice No.
April 1, 19.. To Goods, N.B. 0001 . . £59 12 10

Does this method appear to you to provide an adequate record for book-keeping purposes? If not, what would you suggest, and with what object? (*R.S.A.*)

2. Explain briefly and comment upon some system of Departmental Accounts with which you are familiar.

3. The Needlebore Trading Co. manufactures and sells Linoleum and Carpets. From the following particulars prepare Trading and Profit and Loss Accounts, apportioning the undivided expenses in proportion to the turnovers of the departments—

	Linoleum Dept. £	*s.*	*d.*	*Carpet Dept.* £	*s.*	*d.*
Stocks (1st Jan.)	1,956	12	3	2,285	7	8
Purchases (net)	8,385	3	4	3,649	18	9
Wages	3,958	14	5	2,017	5	2
Manufacturing Expenses (including Depreciation of Plant)	2,075	5	6	1,474	3	6
Sales (net)	21,446	8	4	10,723	4	2
Stocks (31st Dec.)	1,754	9	6	2,071	17	6

Salaries, £3,068 10s. 7d.; Rent, Rates, and Taxes, £1,789 14s. 8d.; General Expenses, £916 18s. 9d.

4. Jeffrey, Slater and Gibbs are equal partners in a business, and are entitled to interest at 5 per cent per annum on their respective capitals before division of profits. All other adjustments have been made. From the following particulars for the year ended 31st December, draw up Trading and Profit and Loss Account, showing the gross and net profit of each department, and the percentage of gross and net profit on turnovers respectively—

	£	*s.*	*d.*		£	*s.*	*d.*
Cash at Bank	1,987	14	3	Capital A/cs. (1st Jan.)—			
,, in hand	520	13	2	Jeffrey	23,516	10	2
,, Creditor	2,000	–	–	Slater	16,379	4	8
Horses, Carts, etc.	752	10	8	Gibbs	13,176	16	7
Fixtures, Fittings, etc.—				Drawings A/cs—			
"A" Dept.	3,985	14	7	Jeffrey	2,750	–	–
"B" ,,	4,106	12	9	Slater	2,000	–	–

	£	s.	d.
Gibbs	1,650	–	–
"A" Dept.			
Stock, 1st Jan. . . .	32,516	11	8
Purchases	61,987	16	7
Sales	81,082	13	11
Trade Expenses . . .	9,027	14	3
Discounts Allowed . .	2,016	17	4
,, Received . .	1,856	4	4
Housekeeping Expenses	1,632	5	7
Sundry Creditors . .	4,438	15	10
,, Debtors . .	14,891	13	6
Stock, 31st Dec., £31,678 10s. 5d.			

	£	s.	d.
"B" Dept.			
Stock, 1st Jan. . . .	7,497	12	6
Purchases	36,518	14	9
Sales	46,916	19	8
Discounts Allowed . .	1,628	10	5
,, Received . .	1,534	5	6
Trade Expenses . . .	4,159	10	11
Housekeeping Expenses	1,079	14	2
Sundry Debtors . . .	4,178	18	5
,, Creditors . .	3,987	14	10
Stock, 31st Dec., £8,918 16s. 8d.			

5. Messrs. Davis & Smith commenced a retail cash business on 1st July with a Stock of goods divided as follows: No. 1 Dept., £373 10s. 2d.; No. 2 Dept., £478 11s. 9d.; No. 3 Dept., £402 19s. 6d.; No. 4 Dept., £537 15s. 6d.; No. 5 Dept., £667 13s. 3d. They also had Cash, £773 6s.; Fixtures and Fittings, £616 3s. 10d.; and equal amounts of Capital. On 31st December, the summary of their Cash Book for the half-year was as follows—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
No. 1 Dept. .	1,309	14	5	No. 1 Dept. .	773	10	6
No. 2 ,, .	1,572	3	10	No. 2 ,, .	770	9	5
No. 3 ,, .	1,638	15	6	No. 3 ,, .	852	12	4
No. 4 ,, .	1,719	18	3	No. 4 ,, .	917	13	8
No. 5 ,, .	2,082	11	5	No. 5 ,, .	1,262	11	10
				,, General Expenses .	816	15	11
				,, Drawings—			
				Davis . .	300	–	–
				Smith . .	300	–	–

On 31st December the following purchases were unpaid: No. 1 Dept., £353 14s. 5d.; No. 2 Dept., £539 10s. 8d.; No. 3 Dept., £446 13s. 9d.; No. 4 Dept., £355 9s. 7d.; No. 5 Dept., £340 16s. 5d. One quarter's Rent, £115, is also outstanding. Stocks on hand at this date are: No. 1 Dept., £427 15s. 4d.; No. 2 Dept., £531 9s. 5d.; No. 3 Dept., £457 8s. 4d.; No. 4 Dept., £567 17s. 11d.; No. 5 Dept., £757 14s. 4d. Draw up Departmental Trading Accounts, adding to the Expenses 20 per cent per annum for depreciation of Fixtures. Divide the Expenses in the following proportions: No. 1 Dept., 3; No. 2 Dept., 5; No. 3 Dept., 7; No. 4 Dept., 9; No. 5 Dept., 11. Draw up also a Profit and Loss Account and Balance Sheet as at 31st December, allowing interest on Capital at 5 per cent per annum, and dividing profits equally.

6. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, apportioning the expenses between the departments in proportion to their respective turnovers—

	£	s.	d.
Purchases (Raw Materials) A Dept.	19,573	12	8
,, (,,) B ,, ...	14,846	3	6
Wages, A Dept.	3,846	5	10
,, B ,, ...	1,945	16	4
Rent Rates, and Taxes	1,150	–	–
Insurance (£26 of this is prepaid)	367	10	6
Horses, Harness, Motor Vans and Vehicles . . .	7,500	–	–
Sundry Expenses	2,750	10	5
Discounts on Purchases	416	11	3

	£	s.	d.
Stock (Raw Materials and Finished Goods)—			
A Dept. (1st Jan.)	7,261	4	2
B ,, (,,)	6,946	12	8
Stable and Motor Expenses	560	5	5
Sundry Debtors	22,630	10	–
Sales, A Dept.	47,328	14	1
,, B ,,	31,552	9	5
Bad Debts	720	5	5
Postage, Telegrams, and Bill Stamps	746	3	4
Directors' Fees	1,500	–	–
Furniture and Fixtures	1,055	–	–
Working Plant and Utensils	43,703	3	4
Exhibition Expenses	1,843	1	3
Bad Debts Provision (1st Jan.)	720	10	6
Debenture Interest	500	–	–
Salaries	2,990	5	10
Discounts on Sales	945	8	4
Travellers' Commission and Expenses	4,500	10	5
Stationery, Sample Books, and Catalogues (£46 of these are still in stock)	1,572	4	3
Difference in Exchange (*Dr.* balance)	32	9	2

Depreciate Working Plant, etc., 10 per cent; Horses, Harness, Motor Vans, etc., 10 per cent; Furniture, 2½ per cent. Make a Provision of 5 per cent on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st December was—

A Dept., £9,432 12s. 6d.; B Dept., £7,846 15s. 3d.

7. The Toilet Specialities Co. manufacture and sell two popular articles, "Excelsior" Hair Cream and "De Luxe" Tooth Powder respectively. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ending 30th June—

	£	s.	d.
Stock of Raw Materials, Hair Cream (1st July)	807	13	8
,, ,, ,, ,, ,, (30th June)	616	10	8
,, ,, ,, Tooth Powder (1st July)	316	4	5
,, ,, ,, ,, ,, (30th June)	361	14	4
Stock of Manufactured Hair Cream (1st July)	713	9	10
,, ,, ,, ,, (30th June)	543	17	6
,, ,, Tooth Powder (1st July)	307	18	9
,, ,, ,, ,, (30th June)	378	5	6
,, Bottles, Boxes, Labels, etc., Hair Cream (1st July)	307	10	8
,, ,, ,, ,, ,, ,, (30th June)	238	12	2
,, ,, ,, ,, Tooth Powder (1st July)	246	15	3
,, ,, ,, ,, ,, ,, (30th June)	247	15	7
Purchases of Raw Materials, Hair Cream	727	4	9
,, ,, ,, Tooth Powder	517	6	5
,, Bottles, Boxes, Labels, etc., Hair Cream	518	5	5
,, ,, ,, ,, Tooth Powder	323	14	6
Manufacturing Expenses, Hair Cream	268	10	7
,, ,, Tooth Powder	243	16	7
Wages, Hair Cream Dept.	707	14	3
,, Tooth Powder Dept.	734	7	8
Salaries	427	15	5
Advertising	5,896	3	10
Postage	506	7	8
Rent, Rates, and Taxes	722	16	9
Sundry Expenses	317	18	6

Sales of Hair Cream, 75,896 bottles @ 1s. 11d. bottle.
,, Tooth Powder, 498,878 boxes @ 5½d. box.

The undivided expenses are to be apportioned between the two departments according to the *number* of bottles of Hair Cream or boxes of Tooth Powder sold.

8. From the following particulars of the Luxworth Motor Car Works, Ltd., draw up departmental Trading Accounts, and a Profit and Loss Account, for the year ending 31st December, 19...

	£	*s.*	*d.*
Fixtures and Fittings	110	15	6
Loose Plant and Tools	378	10	9
Sundry Debtors	3,026	15	8
Cars bought for re-sale	15,725	–	–
Carriage on Cars sold	129	16	6
Management Expenses	487	14	3
Profit and Loss Account—*Cr.* bal. 1st Jan.	706	4	8
Bad Debts	110	9	6
Petrol, Oil, etc., used	657	5	11
Charged to Customers for Hire of Cars	467	13	9
Sales of Motor Cars	18,950	–	–
Charged to Customers for Repairs to Cars	906	12	7
Accessories (Tyres, Tubes, etc.) used	2,418	15	6
Hire Cars	574	–	–
Stock of Accessories (Tyres, Petrol, Oil, etc.) as at 31st December, 19..	356	8	7
Expenses of Hire Cars	208	14	5
Sales of Petrol, Oil, etc.	1,026	13	4
Garage Rents Received	110	15	6
Debenture Interest	125	–	–
Repairs to Plant, etc.	29	13	2
Sales of Accessories (Tyres, Tubes, etc.)	2,907	14	8
Wages in Yard	148	10	3
Cost of Repairs to Cars (Wages, Materials, etc.)	816	16	5
Bad Debts Provision, 1st January	150	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	175	19	2

The following adjustments are necessary: Bad Debts Provision, 5 per cent on Debtors; Depreciation: Loose Tools, 20 per cent; Fixtures and Fittings, 5 per cent; Hire Cars, 20 per cent; the manager is entitled to a Commission of 5 per cent of the net profit after charging this commission.

9. Smith, Brown & Johnson are equal partners in a business, and are entitled to interest at 5 per cent on their respective Capitals before the division of profits. All other adjustments have been made, and from the following particulars you are requested to draw up Trading and Profit and Loss Accounts and Balance Sheet, showing the gross and net profits of each department, and also the percentages of gross and net profit on turnovers respectively—

	£	*s.*	*d.*		£	*s.*	*d.*
Capital A/cs—				Fixtures, Fittings, etc.—			
Smith (1st Jan.)	51,942	11	4	No. 1 Dept.	9,453	–	10
Brown (,,)	36,865	1	2	No. 2 ,,	7,682	19	10
Johnson (,,)	31,234	7	8	Horses, Carts, etc.	1,251	11	–
Drawings A/cs—				Cash Creditor	3,000	–	–
Smith	5,000	–	–				
Brown	3,500	–	–	No. 1 Dept.			
Johnson	3,080	–	–	Sundry Debtors	33,407	4	10
Cash at Bank	4,059	9	6	,, Creditors	12,325	18	4
,, in hand	1,241	10	10	Sales	179,055	13	–

	£	s.	d.
Stock (1st Jan.)	74,837	–	10
Purchases	130,316	18	4
Housekeeping Expenses	3,951	1	8
Discounts Allowed	5,034	12	4
,, Received	4,135	7	4
Trade Expenses	24,215	6	8
Stock, 31st Dec., £70,927 11s. 2d.			
No. 2 Dept.			
Sundry Debtors	9,144	12	8
Sundry Creditors	9,137	15	2
Sales	95,465	15	–
Stock (1st Jan.)	15,345	8	10
Purchases	77,032	7	8
Housekeeping Expenses	2,536	17	6
Discounts Allowed	3,486	5	4
,, Received	2,339	10	8
Trade Expenses	10,925	11	–
Stock, 31st Dec., £19,743 7s. 4d.			

10. Messrs. Hammond & Nelson commenced a retail cash business on 1st July with a Stock of Goods divided as follows: A Dept., £653 11s. 10d.; B Dept., £916 18s. 6d.; C Dept., £853 15s. 10d.; D Dept., £1,003 0s. 10d.; E Dept., £1,346 9s. 4d. They also had Fixtures and Fittings, £1,121 5s.; equal amounts of Capital; and Cash, £1,104 18s. 8d.

The following was the summary of their Cash Book for the half-year ended 31st December—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
A Dept.	2,512	7	10	A Dept.	1,792	8	6
B ,,	3,156	14	4	B ,,	1,585	1	–
C ,,	2,313	12	10	C ,,	1,628	7	2
D ,,	2,475	1	–	D ,,	1,033	13	–
E ,,	4,357	11	2	E ,,	3,406	5	4
				,, General Expenses	1,441	10	–
				,, Drawings—			
				Hammond	500	–	–
				Nelson	500	–	–

The following purchases are unpaid on 31st December: A Dept., £641 18s. 4d.; B Dept., £1,250 15s. 4d.; C Dept., £318 3s. 10d.; D Dept., £493 9s. 8d.; E Dept., £452 2s. 4d. One quarter's Rent, £240, is also outstanding. The Stocks on hand at 31st December are: A Dept., £1,033 0s. 4d.; B Dept., £1,234 6s. 8d.; C Dept., £1,197 13s. 4d.; D Dept., £747 3s. 2d.; E Dept., £1,633 14s. 4d.

Draw up Departmental Trading Accounts, adding to the Expenses 20 per cent per annum for Depreciation of Fixtures. Divide the Expenses thus: A Dept., 5 parts; B Dept., 7; C. Dept., 9; D Dept., 11; E. Dept., 13 parts. Draw up also a Profit and Loss Account, and Balance Sheet, allowing interest on Capital at 5 per cent per annum, and dividing profits equally.

11. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, apportioning the expenses between the two departments in proportion to their respective turnovers—

	£	s.	d.
Stock (Raw Materials and Finished Goods)—			
X Dept. (1st Jan.)	15,909	17	10
Y ,, (,,)	13,975	5	8
Purchases (Raw Materials), X Dept.	39,693	10	6
,, (,, ,,), Y ,,	29,791	15	10
Sales, X Dept.	97,988	5	2
,, Y ,,	65,325	9	10
Exhibiton Expenses	3,831	13	4
Wages, X Dept.	7,975	9	8
,, Y ,,	3,979	19	6
Travellers' Commission and Expenses	10,753	15	–
Rent, Rates, and Taxes	1,975	5	–
Fixtures and Fittings	2,550	–	–

	£	s.	d.
Salaries	7,159	3	4
Working Plant and Utensils	111,190	–	–
Insurance (£70 of this is prepaid)	1,617	–	10
Bad Debts Reserve, 1st Jan.	1,497	1	2
Horses, Harness, Motor Vans and Vehicles	15,974	3	4
Directors' Fees	4,050	–	–
Sundry Debtors	45,907	–	–
Postage, Telegrams, and Bill Stamps	1,834	17	6
Difference in Exchange (*Dr.* balance)	77	16	8
Sundry Expenses	5,592	9	2
Bad Debts	1,657	9	2
Stationery, Sample Books, and Catalogues (£690 of these are still in stock)	6,753	5	–
Debenture Interest	1,260	–	–
Discounts on Purchases	3,497	7	6
,, on Sales	6,537	10	10
Stable and Motor Expenses	1,274	7	6

Depreciate Working Plant 10 per cent; Horses, Harness, etc., 20 per cent; Furniture, 2½ per cent. Make a Provision of 5 per cent on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st December was—

X Dept., £19,791 17s. 10d.; Y Dept., £15,917 5s. 8d.

12. The Table Delicacies Co. manufacture and sell two specialities, namely, "Tip Top" Fish Paste and "A 1" Sauce. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ended 30th June—

	£	s.	d.
Stocks of Raw Materials—			
Fish Paste (1st July)	1,251	11	–
,, ,, (30th June)	1,652	9	8
Sauce (1st July)	469	7	8
,, (30th June)	550	13	6
Stocks of Manufactured Fish Paste (1st July)	1,074	7	10
,, ,, ,, ,, (30th June)	1,744	6	10
,, ,, Sauce (1st July)	433	14	10
,, ,, ,, (30th June)	533	1	4
,, Bottles, Pots, Labels, etc., Paste (1st July)	270	18	8
,, ,, ,, ,, ,, (30th June)	414	17	6
,, ,, ,, ,, Sauce (1st July)	344	13	6
,, ,, ,, ,, (30th June)	270	9	–
Purchases of Raw Materials, Fish Paste	1,033	5	4
,, ,, ,, Sauce	815	–	4
,, Bottles, Pots, Labels, etc., Paste	647	8	10
,, ,, ,, ,, Sauce	487	11	–
Wages, Fish Paste Dept.	1,046	17	2
,, Sauce Dept.	1,205	6	8
Manufacturing Expenses, Paste Dept.	113	7	4
,, ,, Sauce ,,	396	15	4
Salaries	652	7	8
Advertising	7,239	9	–
Printing and Stationery	894	12	10
Carriage on Sales	653	15	4
Rent, Rates, and Taxes	1,331	13	–
Sundry Expenses	558	8	6
Sales of Fish Paste, 709,482 pots @ 4½d. per pot.			
,, Sauce, 123,276 bottles @ 1s. 3d. per bottle.			

The undivided expenses are to be apportioned between the two departments according to the *number* of pots of Fish Paste or bottles of Sauce sold.

13. From the following particulars of the "Stablemere" Motor Car Works, Ltd., prepare departmental Trading Accounts and a General Profit and Loss Account for the year ended 31st December—

	£	s.	d.
Fixtures and Fittings	151	7	6
Loose Plant and Tools	451	5	2
Sundry Debtors	5,850	8	10
Cars bought for re-sale	25,000	–	–
Carriage on Cars sold	230	9	–
Management Expenses	1,021	7	4
Profit and Loss A/c (*Cr.* bal. 1st Jan.)	1,300	11	8
Bad Debts	100	7	2
Petrol, Oil, etc., used	1,251	12	10
Charged to Customers for Hire of Cars	811	5	–
Sales of Motor Cars	29,500	–	–
Charged to Customers for Repairs to Cars	1,901	7	4
Accessories (Tyres, Tubes, etc.) used	4,700	9	8
Hire Cars	1,301	11	10
Stock of Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of current year	751	5	4
Expenses of Hire Cars	450	12	6
Sales of Petrol, Oil, etc.	1,951	9	8
Garage Rents Received	180	19	4
Debenture Interest	250	–	–
Repairs to Plant, etc.	54	13	–
Sales of Accessories (Tyres, Tubes, etc.)	5,471	10	6
Wages in Yard	313	1	4
Cost of Repairs to Cars (Wages, Materials, etc.)	1,750	17	8
Bad Debts Provision (1st Jan.)	240	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	333	–	10

The following adjustments are necessary: Bad Debts Provision, 5 per cent on Debtors; Depreciation: Loose Plant and Tools, 20 per cent; Fixtures, etc., 5 per cent; Hire Cars, 20 per cent; the manager is entitled to a Commission of 5 per cent of the net profit after charging this commission.

14. From the following Trial Balance of T. Thompson, Pawnbroker, prepare Departmental Trading Account and Profit and Loss Account for the year ended 31st December, and Balance Sheet as at that date—

Trial Balance	Dr. £	s.	d.	Cr. £	s.	d.
Fixtures and Fittings	627	14	2			
Stocks (1st Jan.)—						
Pledged Goods (at amount of Advances thereon)	5,127	2	11			
Goods for Re-sale (at cost)	2,065	10	5			
Capital A/c (1st Jan.)				7,000	15	5
Drawings A/c	350	–	–			
Pledged Goods Advances A/c	13,720	14	6			
,, ,, Redeemed A/c				13,015	12	9
,, ,, Interest A/c				1,050	6	10
Sale of Tickets				157	10	3
Sales				2,369	15	7
Wages and Salaries	405	10	3			
Sundry Creditors				339	13	6
Rent, Rates, and Taxes	216	9	10			
Purchases (for re-sale)	657	16	8			
Sundry Expenses	238	12	6			
Cash in hand	158	5	4			
,, at Bank	365	17	9			
	£23,933	14	4	£23,933	14	4

During the year, Unredeemed Pledges to the amount of £1,756 13s. 4d. (sum advanced thereon) have been transferred from the Pledged Goods Account to the Goods for Re-sale Account. The Stock at 31st December was: Pledged Goods (at amount of Advances thereon), £4,215 15s. 9d.; Goods for Re-sale (at cost), £2,630 14s. 8d. Depreciate Fixtures at 5 per cent, and allow Interest on Capital at 5 per cent.

15. G. Greasley is in business as an Engine Dealer and Repairer. From the following particulars prepare Departmental Trading Accounts and Profit and Loss Account for the year ended 31st December—

	£	s.	d.
Capital A/c (1st Jan.)	5,165	14	9
Stock, Engine-Dept. (1st Jan.)	3,316	11	2
,, Repairs ,, ,,	1,164	13	7
Purchases, Engine Dept.	8,507	10	6
,, Repairs ,,	5,275	11	8
Wages, Engine Dept.	2,657	13	4
,, Repairs ,,	3,608	15	5
Working Expenses, Engine Dept.	1,056	5	8
,, ,, Repairs ,,	1,516	4	10
Amounts charged to Customers, Repairs Dept.	12,408	11	10
Sales, Engine Dept.	14,616	16	9
Bad Debts	47	15	4
Salaries	617	2	3
Rent, Rates, and Taxes	426	13	4
Gas and Electric Light	57	14	5
Insurance (Fire and Workmen's Compensation)	158	5	6
Office Furniture	227	13	10
,, Expenses	146	8	9
Discounts—*Credit* balance	41	17	8
Bad Debts Provision (1st Jan.)	60	-	-

The Stocks on hand at 31st December were: Engine Dept., £3,450 16s. 4d.; Repairs Dept., £1,265 19s. 5d. Provide £75 for Bad Debts. Allow Interest on Capital at 5 per cent. Depreciate Office Furniture 5 per cent.

16. P. Philcree is in business, trading as the Engineering Supplies Co., for the manufacture and sale of engineering sundries. From the following particulars prepare Trading and Profit and Loss Accounts showing the gross and net trading profits of each department, and also a General Profit and Loss Account showing the net profit—

	£	s.	d.
Stock, Works Dept. (1st Jan.)	1,056	10	6
,, Retail ,, (,,)	6,573	14	8
Purchases, Works Dept.	8,743	5	10
,, Retail ,,	32,656	18	9
Carriage, Works Dept.	620	13	4
,, Retail ,,	1,456	7	8
Wages, Works Dept.	7,426	19	5
,, Retail ,,	914	10	3
Sales, Works Dept.	21,486	15	2
,, Retail ,,	40,915	14	7
Machinery, Plant, and Tools (1st Jan.)	10,897	14	3
Office Salaries, Works Dept.	526	15	6
,, ,, Retail ,,	507	6	6
,, Expenses, Works Dept.	206	4	11
,, ,, Retail ,,	572	15	10

	£	s.	d.
Rent, Rates, and Taxes, Works Dept.	463	17	8
Rent, Rates, and Taxes, Retail Dept.	325	10	6
Bad Debts Provision, Works Dept. (1st Jan.) . . .	225	10	–
,, ,, ,, Retail ,, (,,)	225	10	–
,, ,, Works Dept, ...	112	15	6
,, ,, Retail ,, ...	116	16	11
Salary (P. Philcree)	1,000	–	–
Bank Interest Received	76	13	4
,, Charges	29	5	8
Income Tax Paid	416	14	2
Interest on Investments, *less tax*	162	13	6

The Stocks on hand at 31st December were: Works Dept., £975 13s. 4d.; Retail Dept., £7,520 18s. 10d. The Machinery, Plant, and Tools were valued at £10,946 12s. 8d. Make a Bad Debt Provision of £230 for each department, and apportion Philcree's salary equally between the two departments.

17. Explain briefly the meaning of Book-keeping by Double Entry, and why preference should be given to that system over others. Explain also the difference between Personal and Impersonal Accounts. (*London Chamber of Commerce.*)

18. Is there any difference between a Trading Account and a Profit and Loss Account, and from what accounts in the Ledger are they prepared?
(*London Chamber of Commerce.*)

19. Prepare a form of Cash Book suitable for a large public institution, such as a County Asylum or Hydropathic Institution, where the rule is imperative to pay everything by cheque, and pay into the Bank all receipts intact, and briefly state your reasons for suggesting the adoption of such a form of Cash Book.
(*London Chamber of Commerce.*)

20. In closing the books of Robert Sawyer you find the undermentioned items. How would you deal with these transactions when preparing the annual accounts for the year ended 31st December?

(1) Fire insurance premium (£50) paid on 30th June this year, covering the twelve months to 30th June next year.

(2) Salaries (£125) accrued due to A, B, and C, but not yet drawn by them.

(3) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to 31st December amounted to £39, when it was estimated that half the contract had been completed.

(4) Patents accounts showed a debit balance of £557 7s. This amount consisted of Patent rights (six years to run) purchased for £550, and renewal fees for the current year, £7 7s.

(5) Three years ago Robert Sawyer bought a milling machine for £200, and depreciation, at the rate of 10 per cent upon the diminishing balance, has been written off each year; the same machine, however, can now be bought for £120 owing to improvements in manufacture.
(*London Chamber of Commerce.*)

21. The following is an abbreviated Statement, presented to Subscribers and Friends by the Management of an important public Charitable Institution, and bearing an Auditor's certificate.

FINANCIAL STATEMENT, *1st January to 31st December*

	£	£
To Bankers' Balance	370	
,, Receipts, Donations, etc.	4,629	
,, "M" Building Fund	793	
,, £470 Consols sold	460	
,, Trust Funds—		
Receipts	8,828	
Dividends	2,559	
£2,449 Consols sold	2,418	
,, Dividend on Consols and Turkish 4%	741	
By Grants		4,740
,, Salaries and General Charges		1,677
,, £459 Consols bought		450
,, Trust Funds—		
Grants		2,715
£11,323 Consols bought		11,109
,, Bankers' Balance		107
	£20,798	£20,798

There is no other Account published, but at the foot of the Statement, and independent thereof, and without the signature of the Auditor, there is a Note stating that there are Investments amounting respectively to £100,588 10s. 7d. and £20,254 6s. 2d., and that there are unpaid Grants amounting to £12,595.

Give your opinion as to this form of Account, and having regard to the attacks occasionally made in the "Press" upon the Accounts as published from time to time by certain charitable societies, state very briefly in what way *you* would have presented the Accounts had you been acting as the Official Accountant to the Institution. (*London Chamber of Commerce.*)

22. Consigned Goods value £750 to A. Archer, of Sydney. Paid Freight £54, and Insurance £30. Received an Advance of £250 from A. Archer. Received Account Sales from A. Archer showing that part of the goods had realized gross £800, and that his expenses and commission amounted to £85. The Stock unsold was valued at £250. Received bill at 1 month from A. Archer for amount due.

Make the necessary Journal and Cash Book entries for the above transactions, and show the Consignment Account in the Ledger.

23. J. C. Mildred and W. F. Merryweather are partners, and divide profits and losses equally after being credited with interest on Capital at 5 per cent per annum.

R. A. Merryweather is the Factory Manager, and is entitled to a bonus of 15 per cent of the profit after allowing for all Interest. He is also entitled to Interest at 5 per cent per annum on the amount of his Bonus left in the business.

Interest on all drawings is ignored.

Land and Buildings Account, Depreciation, 1 per cent per annum.

Machinery, Plant, and Utensils Account includes additions this half-year, £179 8s. 2d.; write off for Depreciation 10 per cent per annum on balance at 1st July.

Office Furniture Account has been regularly depreciated each half-year at 10 per cent per annum. This half-year it has also been reduced on 30th September by the sale of a Typewriter for £5, which was purchased on 30th June last year for £25; include the loss on this transaction with this half-year's depreciation.

Interest on Mortgage owing from 1st October (ignore Income Tax).

MILDRED & MERRYWEATHER, TRIAL BALANCE, 31*st December*, 19..

	£	s.	d.	£	s.	d.
J. C. Mildred, Capital, as at 1st July .				8,653	14	8
W. F. Merryweather, Capital as at 1st July				5,610	3	7
Land and Buildings as at 1st July . .	6,300	–	–			
Machinery, Plant, and Utensils . .	6,250	8	2			
Office Furniture	130	–	–			
Executors of Henry Watson, Loan on Mortgage 4%				4,000	–	–
R. A. Merryweather, Bonus A/c as at 1st July				329	10	–
J. C. Mildred, Drawings A/c. . .	378	4	10			
W. F. Merryweather, Drawings A/c .	229	3	1			
R. A. Merryweather, Drawings A/c .	141	6	7			
Materials Purchased	14,187	14	9			
Wages	4,544	6	8			
Office Salaries	189	11	3			
Travellers' Salaries	432	9	6			
Rates and Insurance	121	15	10			
Discount Allowed	1,064	14	2			
Repairs and Renewals o. Machinery .	248	3	1			
Sales				20,465	7	11
Royalty (on manufacturing process) .	149	1	2			
Gas and Water A/c	35	13	7			
Rent of Stabling let off				41	2	9
Travellers' Commission	123	4	2			
Bad Debts A/c				138	9	1
Travelling Expenses	269	13	1			
Bank Charges	68	9	3			
Discount Received				387	6	8
Returns Inwards	143	5	7			
Creditors				1,250	10	–
Trade Expenses	179	10	5			
Trading A/c—Stock of Materials, 1st July	3,611	17	6			
Debtors	2,700	2	11			
Bank				328	16	3
Petty Cash Balance	5	–	1			
Bills Payable				338	14	9
Interest A/c	40	–	–			
	£41,543	15	8	£41,543	15	8

Stock of Materials, 31st December, £7,032 11s. 9d.

W. F. Merryweather requires £100 transferring from his Account to the credit of R. A. Merryweather as a present at Christmas.

Wages include £12 13s. 6d. paid to an injured workman, and recoverable from the Insurance Company.

Rates owing, £75. Insurance prepaid, £30.

Discount allowed should be shown in Trading Account as a deduction from Sales. Provide $6\frac{1}{4}$ per cent of the Debtors.

Gas and Water. The note from the Corporation received 2nd February shows the gas for the previous half-year ending 31st December is £132 11s. 8d.;

water for half-year ending 30th June next (payable in advance) is £33 6s. 8d. The Corporation allows 5 per cent discount on this note.

J. C. Mildred should be charged 10s. per week for the half-year for use of Stabling belonging to the business.

Bad Debts Account, Provide £200.

Discount received should be shown in Trading Account as a deduction from Materials purchased; Reserve 2½ per cent of Creditors.

Prepare a Trading Account showing the Gross Profit; the profit before charging Partners' Interest on Capital, and the net Profit.

Show the Balance Sheet, 31st December, and prepare copies of the Partners' Capital Accounts for the half-year. (*West Riding of Yorkshire.*)

24. Referring to the previous question, state what percentage the following items in the Trading Account bear to the net Sales—

Materials consumed (including Royalty).
Wages.
Gross Profit.
Net Expenses before charging Partners' Interest.
Net Profit (after Bonus). (*West Riding of Yorkshire.*)

25. Journalize the following transactions—

W. Smith commenced trading on 1st January, paying to his Bank (the London and National Bank) on that day the sum of £1,000 as his Capital.

Jan. 2. He bought goods from X & Co., for which he received invoice amounting to £362 1s. 8d., and gave a bill for that amount.

Jan. 3. Having received an invoice from the H.B.C. Furnishing Co. for £131 10s. for office furniture, he paid by cheque, deducting 5 per cent discount.

Jan. 3. He bought goods from the London Trading Company amounting to £271 6s. 3d.; on receiving the goods he found that they were not up to sample and arranged that he should return part amounting to £51 6s. He paid for the balance by cheque on his bank.

Jan. 4. To oblige his friend, H. Jones, he advanced him £50 by cheque, receiving a bill for £55 payable in three months' time.

Jan. 5. He gave his clerk cheque for £10 for petty cash.

Jan. 6. He sold to George & Co. goods for £220, for which they paid in cash, deducting 2½ per cent discount.

Jan. 7. He bought goods on credit from W. and H. Johnson amounting to £862 11s. 1d.

Jan. 8. He drew cheque on his bank for £20, being £3 one week's salary to his clerk and £17 for his private use.

Jan. 9. He sold goods to A. Murray & Co., for £71 6s. 2d., receiving their cheque in payment, which he paid in to his bank.

Jan. 10. His clerk paid the sum of 15s. out of petty cash for stationery.

Jan. 11. Messrs. A. Murray & Co.'s cheque was returned unpaid by the bank. (*Civil Service.*)

26. I lent Mr. James Price on 18th January the sum of £100, he giving me as security his bill for that amount plus 5 per cent interest for three months. Make out the bill and state on what date Mr. James Price must pay it. Show the entries necessary to be made in Mr. Price's journal to record the transaction. (*Civil Service.*)

27. On 31st December, 1947, the Balance Sheet of a trader showed an item "Insurance paid in advance £21 6s. 2d." During the ensuing year the following payments for various insurances became due on the dates shown and were paid.

Mar.	31.	Fire Premium on Buildings . .	£3,000 at 2s. per cent
June	30.	Fire Premium on Stock . .	£5,000 at 5s. per cent
Dec.	1.	Staff Fidelity Premium . .	£12 10s.

Write up the Insurance Account as it would appear after the accounts of the business for the year ended 31st December, 1948, had been closed. Calculations may be made in months. (*R.S.A.*)

28. Z. Ltd. have their packing cases made by their own workmen, buying the materials.

During 1947 cash paid for wood and nails for this purpose amounted to £319 15s., and during 1948, £351 7s. 6d. Materials in hand were valued as follows: 31st December, 1946, £21 10s.; 1947, £12 7s. 6d.; and 1948, £18 5s.

At the end of 1946, £3 5s. 6d. was due and unpaid for wood purchased and then in hand, at the end of 1947 nil, and at the end of 1948 £4 12s.

The apportioned wages representing workmen's time while employed on making cases were £73 during 1947, and £68 during 1948.

Set out the Ledger Account dealing with the cases for the two years in question. (*R.S.A.*)

29. The Sales Ledgers of a trading concern are divided alphabetically and kept on a "self-balancing" basis. The following were the data from which the A–D Sales Ledger Adjustment Account in the Nominal Ledger was written up for March.

Balances in A–D Ledger on 28th February (agreeing with Adjustment Account): Debtors, £2,459 1s. 7d.; Creditors, £47 5s.

	£	s.	d.
Sales during Month	3,589	10	–
Sales Returns during Month	108	7	3
Cash Received during Month	2,891	3	2
Discount allowed during Month	93	5	8
Bills Receivable Received during Month	250	–	–
Bad Debts written off	15	8	6

Miss D. Peters's Account, having a debit balance of £9 5s., was transferred to the A–D Ledger, she having married a Mr. Cunningham.

A credit balance of £21 15s. appearing on M. Brown's Account in the Bought Ledger was set off against his Account in the Sales Ledger.

The list of balances extracted from the A–D Sales Ledger at the end of March showed total debtors £2,664 9s. 6d., and creditors £43 17s. 6d.

Write up the Adjustment Account from the particulars given, ascertain the "difference," and state the most important of the figures you would first check in order to find it. (It may be assumed that a Trial Balance of the Nominal Ledger agrees and all the other Ledgers balance.) (*R.S.A.*)

30. What do you consider to be the best method of dealing with the value of Loose Plant and Tools, from the point of view of depreciation, in the books of an engineering concern that makes nearly the whole of its requirements in these assets on its own premises? (*Institute of Book-keepers.*)

CHAPTER XII

PARTNERSHIP ACCOUNTS

LAW OF PARTNERSHIP

Definition. By the Partnership Act, 1890, partnership is defined as "the relation which subsists between persons carrying on a business in common with a view of profit."

Relationships which are not Partnerships. The relation between members of any company or association which is—

(*a*) Registered as a company under the Companies Act, 1862, or any other Act of Parliament for the time being in force and relating to the registration of joint stock companies (now Companies Act, 1948); or

(*b*) Formed or incorporated by or in pursuance of any other Act of Parliament or letters patent, or Royal Charter; or

(*c*) A company engaged in working mines within and subject to the jurisdiction of the Stannaries;

is not a partnership within the meaning of the Act.

Prohibition of Large Partnerships. No partnership consisting of more than twenty persons can be formed to carry on any business for gain without being registered as a company under Section 434 of the Companies Act, 1948. In the case of a banking business the number must not exceed ten (Section 429).

Firm and Firm-Name. Persons who have entered into partnership with one another are, for the purposes of the Partnership Act, 1890, called collectively a firm, and the name under which their business is carried on is called the firm-name.

By the Registration of Business Names Act, 1916, every firm having a place of business in the United Kingdom, and carrying on business under a name *which does not consist of the true surnames of all the partners*, must be registered. Particulars must be furnished of the business name, general nature of the business, principal place of business; the present Christian name and surname, any former Christian name and surname, nationality, and if that nationality is not the nationality of origin, the nationality of origin, usual residence, and the other business occupation (if any) of each partner. The names of the partners must also appear on the note-paper, catalogues, showcards, etc., issued by the firm.

Difference between an Ordinary Partnership and a Company. The following points should specially be noted—

(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and dictinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can only proceed against the property of the company in case of necessity, and, ordinarily, there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the other members of the company, and without affecting its existence; this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds and, to a limited extent, for 12 months after sale. In a partnership each member is liable jointly for the whole of the debts of the firm, although the Limited Partnership Act, 1907, provides for partners with limited liability.

(5) In a partnership the number of members must not exceed twenty, or, in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, nor less than two or more than fifty in a private one.

(6) In a partnership, each general partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders called directors.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, or the Partnership Act, and may be altered by mutual agreement. In a limited company, the objects of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm may be increased by additions and by profits, or decreased by withdrawals and losses, or altered by mutual agreement. The capital of a company is fixed by the Memorandum, is unaffected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

Kinds of Partners. There are different kinds of partners, viz—

Acting or Active Partner, one who actually takes part in the business; **Dormant or Sleeping Partner,** one who has capital in the business, but is not actually engaged in it; **Limited Partner,** one who is a partner under the Limited Partnership Act; **Quasi Partner,** one who has retired from active participation in the business, but has left his capital in it as a loan, receiving interest on it varying with the profits, or who (although not a partner) incurs liabilities as if he were a partner by reason of the fact that he holds himself out or allows himself to be represented as such.

Power of a Partner to Bind the Firm. Every partner is an agent of the firm and his other partners for the purpose of the business of the partnership; and the acts of every partner who does any act for carrying on in the usual way business of the kind carried on by the firm of which he is a member bind the firm and his partners, unless the partner so acting has in fact no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows that he has no authority, or does not know or believe him to be a partner.

Partner using Credit of Firm for Private Purposes. Where one partner pledges the credit of the firm for a purpose apparently not connected with the firm's ordinary course of business, the firm is not bound, unless he is in fact specially authorized by the other partners.

Liability of Partners. Every general partner in a firm is liable jointly with the other partners for all debts and obligations of the firm incurred while he is a partner; and after his death his estate is also severally liable in a due course of administration for such debts and obligations, so far as they remain unsatisfied, but subject to the prior payment of his separate debts.

Liability of Firm. (*a*) Where one partner acting within the scope of his apparent authority receives the money or property of a third person and misapplies it; and (*b*) where a firm in the course of its business receives money or property of a third person, and the money or property so received is misapplied by one or more of the partners while it is in the custody of the firm; the firm is liable to make good the loss.

Liabilities of Incoming and Outgoing Partners. By Section 17 of the Partnership Act—

(1) A person who is admitted as a partner into an existing firm does not thereby become liable to the creditors of the firm for anything done before he became a partner, unless it is quite clear from the agreement that he intended to make himself liable.

(2) A partner who retires from a firm does not thereby cease to be liable to outside parties for partnership debts or obligations incurred before his retirement.

(3) A retiring partner may be discharged from any existing liabilities, by an agreement to that effect between himself and the members of the firm as newly constituted and the creditors, and this agreement may be either express or inferred as a fact from the course of dealing between the creditors and the firm as newly constituted.

Variation of Terms of Partnership. The mutual rights and duties of partners, whether ascertained by agreement or defined by the Partnership Act, may be varied by the consent of all the partners, and such consent may be either express or inferred from a course of dealing.

Partnership Property. By Section 20 of the Partnership Act—

All property and rights and interests in property originally brought into the partnership stock or acquired, whether by purchase or otherwise, on account of the firm, or for the purposes and in the course of the partnership business, are called in this Act partnership property, and must be held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement.

Unless the contrary intention appears, property bought with money belonging to the firm is deemed to have been bought on account of the firm.

Rights and Duties of Partners. By Section 24 of the Partnership Act, the interests of partners in the partnership property, and

their rights and duties in relation to the partnership shall be determined, subject to any agreement express or implied between the partners, by the following rules—

(1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.

(2) The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him—

(*a*) in the ordinary and proper conduct of the business of the firm; or,

(*b*) in or about anything necessarily done for the preservation of the business or property of the firm.

(3) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5 per cent per annum from the date of the payment or advance.

(4) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

(5) Every general partner may take part in the management of the partnership business.

(6) No partner shall be entitled to remuneration for acting in the partnership business.

(7) No person may be introduced as a partner without the consent of all existing partners.

(8) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.

(9) The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

NOTES. (*a*) It is essential to realize that the Partnership Act does not apply where there is a Deed in existence dealing with any point in question.

(*b*) Notice particularly that in view of Section 24 (3), it is more advantageous to bring in further money as a *loan* than as additional capital.

Expulsion of Partner. No majority of the partners can expel any partner unless a power to do so has been conferred by express agreement between the partners.

Duration of Partnership at Will. Where no fixed term has been agreed upon for the duration of the partnership, any partner may determine the partnership at any time on giving notice of his intention so to do to all the other partners. Where the partnership has originally been constituted by deed, a notice in writing, signed by the partner giving it, is sufficient.

Where a partnership entered into for a fixed term is continued after the term has expired, and without any express new agreement, the rights and duties of the partners remain the same as they were at the expiration of the term, so far as is consistent with the incidents of a partnership at will. A continuance of the business by the

partners or such of them as habitually acted therein during the term, without any settlement or liquidation of the partnership affairs, is presumed to be a continuance of the partnership.

Duties of Partners towards the Firm. Partners are bound to render true accounts and full information of all things affecting the partnership to any partner or his legal representatives.

Every partner must account to the firm for any benefit derived by him without the consent of the other partners from any transaction concerning the partnership, or from any use by him of the partnership property, name, or business connexion.

If a partner, without the consent of the other partners, carries on any business of the same nature as, and competing with, that of the firm, he must account for and pay over to the firm all profits made by him in that business.

Partnership Deed. There may be, and often are, "partnerships at will" without the existence of any deed or written agreement. Owing to the conflicting legal interpretations of the Partnership Act, however, a deed should be drawn up and the following matters dealt with specifically—

(1) The amount of capital each partner is to contribute, and whether the amount is to be fixed or not.

(2) How profits and losses, including capital profits and losses, are to be shared.

(3) The amount each partner is to be allowed to draw.

(4) Whether interest is to be allowed on capital and charged on drawings, and at what rate.

(5) Whether drawings, profits and losses, and interest are to be dealt with in separate Current Accounts, or merged finally into the Capital Accounts.

(6) Whether the balances of the partners' Current Accounts are to be charged or credited with interest, and at what rate.

(7) That a Profit and Loss Account and Balance Sheet be drawn up each year, and audited by a professional accountant; and that such Balance Sheets be signed by all the partners and be binding on them, unless a manifest error is discovered within six months afterwards.

(8) In the case of Policies of Survivorship Insurance being taken out, how the premiums are to be dealt with, and how the Policy Money is to be divided when received.

(9) The method of arriving at the amount of Goodwill in the case of the death or retirement of any of the partners.

(10) The method of arriving at the amount payable on the death or retirement of a partner—whether he is to be entitled to his capital, as in the last Balance Sheet, plus a higher rate of interest to date of death or retirement in lieu of profits or whether fresh accounts are to be prepared up to date of death or retirement, and whether the partnership assets are to be re-valued for this purpose.

(11) That in the event of the death of a partner, his capital should remain in the business as a loan bearing interest, and be repayable by instalments, so as to prevent the business being crippled by a large withdrawal of funds.

QUESTIONS

1. What is the legal definition of "partnership"?
2. What is meant by partnership property?
3. What partnerships are prohibited by law?

4. Explain the meaning of the terms "firm" and "firm-name."
5. State briefly some of the differences between an ordinary partnership and a joint stock company.
6. Explain what is meant by the following: "Active Partner," "Dormant Partner," "Limited Partner," "*Quasi* Partner."
7. What power has a partner, as such, to bind his firm?

THE ACCOUNTS

Fixed Capital Accounts. In practice, it is usual for the amounts of the partners' capitals to be fixed by the partnership deed. The Capital Accounts, therefore, remain at the same figure during the partnership. Partners' salaries, profits, and interest on capital are not shown in the Capital Accounts but in separate Current or Drawings Accounts, the balances of which are carried to the Balance Sheet, and in some cases bear interest. A distinction is thus made and maintained between original capital and undrawn profits. The difference between the two methods can easily be seen from the example on the next page, which represents the liabilities side of a Balance Sheet drawn up both ways.

Partner's Advances. Any further sums of money advanced by a partner to the firm will be by way of *loan* rather than *capital*, inasmuch as partners' loans have priority of repayment over partners' capital in the event of a dissolution. The interest on such loans, unless paid in cash, should, therefore, be credited to the Partners' Loan Account or Current Account, and not to his Capital Account.

Partner's Salaries. Where some of the partners devote the whole of their time to the business while others do not, it is usual to allow the former a salary before ascertaining the net profit. The practice also obtains where there are junior partners who, having little or no capital in the firm and taking only a small share of the profits, would otherwise derive insufficient remuneration from the business for their services to it. The salary is sometimes drawn out in cash, and sometimes credited to the Partner's Capital Account, according to the agreement.

Interest on Capital. In order to adjust the rights of partners, as between themselves, it is usual to allow interest on partners' capitals. Where partners share equally in the profits, but have unequal capitals, the partner with the smaller capital would otherwise get an advantage over the other; and where the partners have equal capitals but share profits unequally, the partner who takes the larger share of profits would otherwise gain at the expense of the other. The interest is debited to Profit and Loss Account and credited to the Capital Accounts or Current Accounts as the case may be.

Two simple illustrations can best emphasize that important point.

(1) FIXED CAPITAL METHOD

Liabilities	£ s. d.	£ s. d.
Bills Payable		1,656 2 11
Sundry Creditors		3,074 3 10
Outstanding Expenses		85 16 9
Loan A/c, Potts		2,000 – –
Current A/c, Potts—		
Share of Profit	1,376 9 10	
Interest on Capital	350 – –	
,, ,, Loan	100 – –	
	1,826 9 10	
Less Drawings	1,550 – –	
		276 9 10
Current A/c, Kemp—		
Share of Profit	864 3 11	
Interest on Capital	150 – –	
	1,014 3 11	
Less Drawings	850 – –	
		164 3 11
Capital A/cs—		
Potts	7,000 – –	
Kemp	3,000 – –	
		10,000 – –
		£17,256 17 3

(2) ALTERNATIVE METHOD

Liabilities	£ s. d.	£ s. d.
Bills Payable		1,656 2 11
Sundry Creditors		3,074 3 10
Outstanding Expenses		85 16 9
Loan A/c, Potts	2,000 – –	
Interest accrued	100 – –	
		2,100 – –
Capital A/cs—		
Potts, 1st Jan.	7,000 – –	
Add Interest	350 – –	
,, Share of Profit	1,376 9 10	
	8,726 9 10	
Less Drawings	1,550 – –	
		7,176 9 10
Kemp, 1st Jan.	3,000 – –	
Add Interest	150 – –	
,, Share of Profit	864 3 11	
	4,014 3 11	
Less Drawings	850 – –	
		3,164 3 11
		£17,256 17 3

Example 1. Unequal Capitals but Equal Shares of Profits.

Capital—A. £3,000
B. £2,000

Net Profits before charging interest £1,100. Division of profits—

Before charging Interest	*Interest at 5% being charged*			
A. £550	A. Interest . .	£150	B. Interest . . .	£100
B. £550	Half net Profits	£425	Half Net Profits	£425
£1,100		£575		£525

Example 2. Equal Capitals but Unequal Shares of Profits.

Capital—A. £3,000 with $\frac{3}{5}$ profits.
B. £3,000 with $\frac{2}{5}$ profits.

Net Profits before charging interest at 5% £1,100. Division of profits—

Before charging Interest	*Interest at 5% being charged*			
A. £660	A. Interest . .	£150	B. Interest . . .	£150
B. £440	Share of profits	£480	Share of profits .	£320
£1,100		£630		£470

Another important aspect of this question of the charging of interest on capital, especially for the examinee, is that of making such a charge in the accounts of a sole trader. It is surely an accepted fact that a person risks his money in a business, and accepts the financial responsibilities of such a position, because of the increased reward possible over and above that to be obtained in comparative safety by investment in gilt-edged securities. That being so, it is an advantage if his Profit and Loss Account can tell him, not the profits obtained by the use of his money, but, the *additional* reward or what are sometimes termed "super profits" which he would not otherwise have obtained. The total amount passing to the credit of his Capital or Current Account must obviously be the same, but when interest is charged the net profit has an entirely different meaning and one which is of far greater significance.

Interest on Drawings. In many cases, interest is not chargeable on drawings, the reason being that the drawings are not out of *capital* but on account of *profits* that are accruing. Where, however, partners withdraw capital sums, interest is charged. In order to adjust the rights of the partners *inter se*, that is, to prevent one

partner getting any advantage over the others, it is also necessary to charge interest on drawings where partners, who are equal as regards capital and share of profits, draw out *unequal* sums. The interest is debited, by means of a journal entry, to the Drawings Account and credited to an Interest on Capital Account.

Drawings Account. The following is an example *without interest*—

Dr. R. RUMLEY.—DRAWINGS *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Mar. 1	To Cash . . .	60	–	–	Dec. 31	By Transfer to Capital A/c . . .	240	–	–
June 1	,, ,, . . .	50	–	–					
Sept. 1	,, ,, . . .	75	–	–					
Dec. 1	,, ,, . . .	55	–	–					
		£240	–	–			£240	–	–

The following is an example *with interest*—

Dr. R. RUMLEY.—DRAWINGS *Cr.*

		Interest											
		£	s.	d.	£	s.	d.			£	s.	d.
19..								19..				
Mar. 1	To Cash .	2	10	–	60	–	–	Dec. 31	By Transfer to Capital A/c . . .	245	8	9
June 1	,, ,, .	1	9	2	50	–	–					
Sept. 1	,, ,, .	1	5	–	75	–	–					
Dec. 1	,, ,, .		4	7	55	–	–					
,, 31	,, Interest .				5	8	9					
					£245	8	9			£245	8	9

Interest on capital, and share of profits, are sometimes shown in the Drawings Account instead of in the Capital Account. The balance of the Drawings Account is transferred to the Capital Account, unless the latter is a fixed amount; in such cases it appears separately on the Balance Sheet, and the Account is more commonly called a Current Account. Below is an example *with interest on capital and share of profit.*

Dr. R. RUMLEY.—DRAWINGS *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Mar. 31	To Cash . . .	120	–	–	Dec. 31	By Interest on Capital .	250	–	–
June 30	,, ,, . . .	80	–	–	,, 31	,, Share of Profit .	365	16	6
Sept. 30	,, ,, . . .	65	–	–					
Dec. 31	,, ,, . . .	130	–	–					
,, 31	,, Balance transferred to Capital A/c .	220	16	6					
		£615	16	6			£615	16	6

Goodwill. This term has received various legal definitions, e.g. "Nothing more than the probability that the old customers will resort to the old place"; "The benefit arising from connexion and reputation." Looked at from another point of view, it should represent the value of the ability of a business to make surplus

profit after charging interest on the capital employed, and allowing for a management salary in case the proprietor did not wish to manage it himself. The goodwill may arise from the reputation of the article sold, the personality of the proprietor, monopoly, patents, trade-marks, favourable locality, etc. Goodwill may have to be taken into consideration on the death of an existing partner or the admission of a new one, and also on the sale of the business. For the purpose of sale, the value of the goodwill is usually taken to be from one to five years' purchase of the average net profits for a period of years, though in retail business it is often based on the turnover. The value of goodwill is governed by so many circumstances that no general rule can be laid down.

It is, however, important to remember that goodwill should never appear in the books of a business unless—

(*a*) It has been purchased.

(*b*) It is necessary to raise it in connexion with the introduction of a new partner.

(*c*) The death or retirement of an existing partner makes it necessary to arrive at the true value of such partner's shares.

Goodwill and Incoming Partners. It is usual to charge an incoming partner a premium for goodwill. The method of treating this item in the books of account varies considerably. There are five main ways of dealing with this matter, and they are as follows—

1. A Goodwill Account is raised, the amount being credited to the old partners in the proportion in which they share profits and losses.
2. The premium paid for a share of the goodwill by the incoming partner is drawn out again, in cash, by the old partners.
3. The premium paid for a share of the goodwill by the incoming partner is retained in the business; the sum so paid being credited in the proper proportions to the old partners' Capital Accounts.
4. The premium paid for a share of the goodwill by the incoming partner is paid to the old partners direct, no record being made in the firm's books.
5. An agreed amount of cash is withdrawn by the old partners and charged to a Goodwill Account.

It is to the advantage of the incoming partner that the payment of a premium for goodwill should be shown in the partnership books, and thus ensure there being a permanent record of it, in order to facilitate matters if he should retire and require payment to him of a similar sum. It is also, usually, to the advantage of the new partner that the premium he pays on admission should not be drawn out again, but should be left in the business, so that the latter shall derive some benefit from it.

Example 1. J. Rowell and M. Collado are in partnership, sharing profits and losses in the proportions of two-thirds and one-third respectively. They agree to admit C. Constant as a partner

with a fifth share on condition that he brings in £2,000 capital, and that the old partners are credited with their respective shares of the goodwill estimated at £1,200. Rowell and Collado, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

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		Dr.	Cr.
		£	£
	Goodwill	1,200	
	To J. Rowell $\frac{2}{3}$		800
	,, M. Collado $\frac{1}{3}$		400
	For their respective shares of goodwill		

CASH BOOK

Dr.	£		Cr. £
To C. Constant (Capital A/c)	2,000		

As Constant takes one-fifth of the profits, four-fifths will remain, and the partners' shares will be as follows—

Rowell	will receive	$\frac{2}{3}$ of $\frac{4}{5}$	or $\frac{8}{15}$ths;
Collado	,, ,,	$\frac{1}{3}$ of $\frac{4}{5}$	or $\frac{4}{15}$ths;
Constant	,, ,,	$\frac{1}{5}$	or $\frac{3}{15}$ths.

Example 2. J. Judge and K. King are in partnership, sharing profits and losses in the proportions of three-fourths and one-fourth respectively. They agree to admit K. Kerry as a partner on condition that he brings into the business £1,500 capital and pays them a premium of £300 for a fifth share in the profits. Make the necessary entries in the books.

CASH BOOK

Dr.	£		Cr. £
To K. Kerry (Capital A/c)	1,500		

As only £1,500 was brought into the business, a separate cheque would be handed to Judge and King for the premium.

Alternatively, the premium would appear on both sides of the Cash Book—

CASH BOOK

Dr.	£		Cr. £
To K. Kerry (Capital A/c)	1,500	By J. Judge	225
,, Premium—		,, K. King	75
J. Judge (Capital A/c)	225		
K. King (,, ,,)	75		

Example 3. O. Oldham and B. Barlass are in partnership, sharing profits and losses three-fifths and two-fifths respectively. They agree to admit W. Wheater as a partner on condition that he brings into the business £2,500, £500 of which is to be regarded as premium for admission. Make the necessary entries in the books.

Dr. CASH BOOK *Cr.*

	£		£
To W. Wheater (Capital A/c) .	2,000		
,, O. Oldham, Capital A/c ($\frac{3}{5}$ of Wheater's Premium)	300		
,, B. Barlass, Capital A/c, ($\frac{2}{5}$ of Wheater's Premium) .	200		

In this case the money brought in by Wheater must be split up, the capital being separated from the premium, which belongs to the old partners, and must be credited to their Capital Accounts in the same proportion in which they are entitled to share profits.

Example 4. C. Coward agrees to admit F. Glen into partnership on the following terms—(*a*) That Glen brings £2,650 Capital in Cash into the business; (*b*) that £650 is to be paid out to C. Coward and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

Dr. CASH BOOK *Cr.*

	£		£
To F. Glenn (Capital A/c) .	2,650	By Goodwill A/c (amount paid out to C. Coward by way of premium) . . .	650

QUESTIONS

1. How far is each partner liable for the obligations of the firm? Does this liability continue after his decease?

2. What is the liability of the firm with reference to money or property—
   (*a*) received by a partner who misapplies it?
   (*b*) received by the firm, and a partner misapplies it?

3. Explain what is meant by "holding out," and the liabilities attaching to it. Does the penalty apply to the continued use of the firm-name after the decease of any of the partners?

4. What are the liabilities of incoming and outgoing partners respectively? Can they be discharged from these liabilities by an agreement between all the partners?

5. Can partners vary their mutual rights and duties by means of a written agreement?

6. What are the mutual rights and duties of partners, as laid down by the Partnership Act, in regard to the following—

(*a*) Sharing of Profits or Losses? (*b*) Payments made by a partner on account of the firm? (*c*) Advances to the firm by a partner? (*d*) Interest on Capital? (*e*) Management of the business? (*f*) Remuneration of partners? (*g*) Introduction of new partners? (*h*) Disputes *re* partnership affairs? (*i*) Partnership books?

7. Can a partner be expelled by the other partners?

8. When does a partnership terminate? Under what circumstances is a "continuance" of a partnership presumed?

Adjustment of Assets on Admission of Partner, Amalgamation of Businesses. It often happens, when a new partner is admitted, that the assets of the business are re-valued, any appreciation or depreciation being adjusted in the Capital Accounts of the old partners. A new partner may also bring into the partnership other assets besides Cash, namely, Book Debts, Plant, etc., and the Goodwill of his own connexion.

Example. V. Evans and T. Taylor are partners in a coal business, sharing profits and losses equally. On 31st December, their Capitals stood at £3,500 and £3,000 respectively. The firms' assets and liabilities on the same date were as follows: Coal Trucks, £756; Furniture and Fittings, £260; Sundry Creditors, £1,140; Cash at Bank, £1,325; Carts, Plant, and Horses, £840; Bills Payable, £1,068; Sundry Debtors, £4,740; Cash in hand, £52; and Stock of Coal, £735. They agree to take into partnership P. Primrose, a colliery agent, as and from 1st January, on the following terms: Profits and losses to be shared, Evans two-fifths, Taylor two-fifths, and Primrose one-fifth. Primrose is to bring into the business Sundry Debtors amounting to £720 (less a Reserve of 5 per cent for Bad Debts), and the Goodwill of his connexion estimated at £400. His Capital in the new business is to be £1,800, the balance of which he is to pay in Cash on 1st January, 19... It was also agreed between them that the following adjustments should be made as regards the business of Evans and Taylor: Coal Trucks to be taken at £955, and Carts, Plant, and Horses at £950, the values placed on them by a public valuer; a Bad Debts Reserve of 5 per cent of the Sundry Debtors to be created; the Goodwill to be valued at £1,250; and Evans to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Taylor's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the new firm prior to commencing business.

In Evans and Taylor's Books

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		Dr.	Cr.
		£	£
19.. Jan. 1	Sundry Debtors	720	
	Goodwill	400	
	To Bad Debts Reserve		36
	,, P. Primrose (Capital A/c)		1,084
	For assets brought in by P. Primrose		
,, 1	Coal Trucks	199	
	Carts, Plant, and Horses	110	
	Goodwill	1,250	
	To Bad Debts Reserve		237
	,, V. Evans Capital A/c)		661
	,, T. Taylor (,, ,,)		661
	For net gain to Evans and Taylor on the revaluation of their assets.		

Note particularly that the Sundry Debtors must *not* be entered at the net figure of £684, as individual debts of a total value of £720 are actually in existence.

Dr. CASH BOOK *Cr.*

	£		£
To Balance	1,325	By V. Evans (Capital A/c) (amount withdrawn by him to reduce his Capital, £4,161 to the same amount as T. Taylor, £3,661)	500
,, P. Primrose (Capital A/c) (amount paid in by him to raise his Capital from £1,084 to £1,800)	716		

BALANCE SHEET AS AT 1ST JANUARY, 19..

Liabilities	£	*Assets*		£
Bills Payable	1,068	Cash in hand		52
Sundry Creditors	1,140	,, at Bank		1,541
Capital A/cs—		Debtors	£5,460	
V. Evans	3,661	*Less* Reserve	273	
T. Taylor	3,661			5,187
P. Primrose	1,800	Stock of Coal		735
		Coal Trucks		955
		Carts, Horses, and Plant		950
		Furniture and Fittings		260
		Goodwill		1,650
	£11,330			£11,330

Guarantee of Assets and Liabilities—Preferential Claim on First Year's Profits. It often happens that an incoming partner requires the assets and liabilities, as shown by the firm's Balance Sheet, to be guaranteed, in order to protect himself against errors that may subsequently be discovered. Should a liability have been omitted or under-estimated, the loss arising from it will not then be borne by the new partnership, but solely by the old partners. Should discounts and bad debts arise in connexion with the debtors in excess of what has been provided, the new partnership will not share in such losses, which will be debited to the old partners' Capital Accounts, and not to the firm's Profit and Loss Account.

On the other hand, there are sometimes profits accruing on work in progress, or orders in hand, which the old partners justly require to be reserved entirely for themselves. Such profits will be credited, in their proper proportions, to the Capital Accounts of the old partners, and not to the Profit and Loss Account of the firm. In some cases, however, an arrangement is made whereby the old partners become, in respect of such accruing gains, entitled to a preferential claim of a fixed amount of the first year's profits.

Goodwill and Outgoing Partners. On the death or retirement of a partner, his share of the goodwill has to be valued, and the amount arrived at according to the terms of the partnership deed; or if no arrangement has been made, then the goodwill of the firm is valued, and of this amount a proportion, the same as that in which he shares profits, is then credited to the said partner's Capital Account. Instead of the partner's share of the goodwill, an annuity, or a percentage of the profits for a certain number of years, is sometimes paid to the deceased partner's representatives.

Policies of Survivorship Assurance. Partners often assure themselves either jointly or severally as a means of obtaining the necessary cash to pay out a deceased partner's share of the capital and goodwill. This prevents any financial difficulties when such a necessity arises. The premiums paid are debited to Profit and Loss as a business expense, and on the death of a partner, *the cash received for the policy is debited in the Cash Book and credited to the partners' Capital Accounts (including the account of the deceased partner), in the same proportion as they share profits.* The cash is then in hand with which to make the required payment. If desired, a Policy Account may be opened, and dealt with in a similar way to the Insurance Policy Method of depreciation.

Example. A. Ashton and B. Beeching are in partnership, sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the capital and goodwill in the event of death, they assure their lives jointly for £8,000, paying an annual premium of £300, which is debited to the firm's Profit and Loss Account each December. Beeching dies

on the last day of June, 19... The partnership deed provides that his representatives are to receive his capital, as per the last Balance Sheet, plus interest at 5 per cent per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive as his share of the goodwill an amount estimated at two years' purchase of his average net profits of the last three years, before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,420, £2,800, and £2,310 respectively. Beeching's Capital shown in the Balance Sheet was £2,620, and his Drawings to date of death amount to £725. Make the necessary adjustments and draw up Beeching's Account, showing the amount payable to his legal representatives.

The goodwill is calculated thus—

Average profit for the last three years before charging insurance premiums = (£2,720 + £3,100 + £2,610 ÷ 3) = (£8,430 ÷ 3) = £2,810.

Total goodwill on basis of two years' purchase of the average net profits = (£2,810 × 2) = £5,620.

Beeching's share of goodwill = $\frac{2}{5}$ of £5,620 = £2,248.

Dr. CASH BOOK *Cr.*

		£		£
To Assurance Policy—				
A. Ashton (Capital A/c) . .	£4,800			
B. Beeching (Capital A/c) . .	3,200			
		8,000		

Dr. B. BEECHING (DECEASED) *Cr.*

19..		£ s. d.	19..		£ s. d.
June 30	To Drawings . .	725 – –	Jan. 1	By Balance . .	2,620 – –
„ 30	„ Balance c/d .	7,870 10 –	June 30	„ Interest on above 6 mos. @ 5% p.a. . .	65 10 –
			„ 30	„ Profits for 6 mos. ½ of (⅖ of £2,310)	462 – –
			„ 30	„ Share of Goodwill . . .	2,248 –
			„ 30	„ Cash (Share of Assurance Policy) . .	3,200 – –
		£8,595 10 –			£8,595 10 –
	To Cash . . .	7,870 10 –	June 30	By Balance b/d . .	7,870 10 –

Goodwill on Sale of a Partnership Business. When a partnership business is sold as a going concern, the amount obtained

for the goodwill will be a profit, to be divided among the partners in the same proportion as they share profits on trading.

Repayment of Outgoing Partner's Share by Instalments. On the death or retirement of a partner, his share of the capital and goodwill may, instead of being paid out immediately to his representatives, be treated as a loan, bearing interest, and repayable by fixed annual instalments.

Example. Assume in the example shown at the foot of p. 392, that B. Beeching's share of Capital, Profits, and Goodwill, viz. £7,870 10s., is payable by annual instalments of £1,500, interest at 5 per cent per annum being allowed on the outstanding balance. Show the Ledger Account in the firm's books.

Dr. B. BEECHING (DECEASED) LOAN *Cr.*

Year		£	s.	d.	Year		£	s.	d.
1	To Cash (6 mos.)	750	–	–	1	By Balance	7,870	10	–
	,, Balance c/d	7,317	5	3		,, Interest, 6 mos.	196	15	3
		£8,067	5	3			£8,067	5	3
2	To Cash	1,500	–	–	2	By Balance b/d	7,317	5	3
	,, Balance c/d	6,183	2	6		,, Interest, 1 year	365	17	3
		£7,683	2	6			£7,683	2	6
3	To Cash	1,500	–	–	3	By Balance b/d	6,183	2	6
	,, Balance c/d	4,992	5	7		,, Interest, 1 year	309	3	1
		£6,492	5	7			£6,492	5	7
4	To Cash	1,500	–	–	4	By Balance b/d	4,992	5	7
	,, Balance c/d	3,741	17	10		,, Interest, 1 year	249	12	3
		£5,241	17	10			£5,241	17	10
5	To Cash	1,500	–	–	5	By Balance b/d	3,741	17	10
	,, Balance c/d	2,428	19	9		,, Interest, 1 year	187	1	11
		£3,928	19	9			£3,928	19	9
6	To Cash	1,500	–	–	6	By Balance b/d	2,428	19	9
	,, Balance c/d	1,050	8	9		,, Interest, 1 year	121	9	–
		£2,550	8	9			£2,550	8	9
7	To Cash	1,102	19	2	7	By Balance b/d	1,050	8	9
						,, Interest, 1 year	52	10	5
		£1,102	19	2			£1,102	19	2

Repayment of Outgoing Partner's Share with Interest from Date of Realization of Assets. Although, by law, interest ceases at the date of dissolution, yet it frequently happens that the continuing partner agrees to pay the outgoing partner his share by instalments with interest as and from the date of realization of the assets. In some cases the average date is ascertained, and interest

calculated from this date. The account then takes the form of an Account Current.

Example. M. Lowther and A. Borchard are in partnership, sharing profits and losses equally. Lowther agrees to buy out Borchard, and the position of affairs on this date is as follows—

BALANCE SHEET AS AT 1ST JANUARY, 19..

Liabilities	£	*Assets*	£
Sundry Creditors	1,270	Cash	1,340
Capital A/cs—		Sundry Debtors	4,850
M. Lowther	3,090	Office Furniture	260
A. Borchard	2,090		
	£6,450		£6,450

Lowther is to take over the Office Furniture at £200, to allow Borchard £540 for his share of the Goodwill, and to pay him his proportion as and when realized, interest to be taken into account at 5 per cent per annum. A loss of £150 is sustained on the Sundry Debtors, and a discount of £30 obtained from the Creditors. The latter were paid at an average date of *four* months, and the Debtors were realized at an average date of *eight* months from the date of dissolution. Lowther paid Borchard £550 on 1st March, £550 on 1st June, £550 on 1st September, and the balance on 31st December. Draw up the Account Current between Lowther and Borchard, and show the final payment made to Borchard on 31st December.

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

19..		£	19..			£
Dec. 31	To Bad Debts (loss)	150	Dec. 31	By Discount on Creditors (gain)		30
,, 31	,, Furniture (loss)	60	,, 31	,, Capital A/cs (net loss)—		
				Lowther, $\frac{1}{2}$	£90	
				Borchard, $\frac{1}{2}$	£90	
						180
		£210				£210

ADJUSTED BALANCE SHEET.—31ST DECEMBER, 19..

Liabilities	£	*Assets*	£
Creditors	1,240	Cash	1,340
Capital A/cs		Debtors	4,700
M. Lowther	3,000	Office Furniture	200
A. Borchard	2,000		
	£6,240		£6,240

A. BORCHARD IN ACCOUNT CURRENT WITH M. LOWTHER

31st December, 19..

Dr. | *Cr.*

Date	Item	Amount	Days	Products	Date	Item	Amount	Days	Products
19..		£ s. d.			19..		£ s. d.		
Mar. 1	To Cash	550 – –	305	167,750	Jan. 1	By Office Furniture ($\frac{2}{5}$ of £200)	80 – –	364	29,120
May 1	,, Sundry Crs. ($\frac{2}{5}$ £1,240)	496 – –	244	121,024	,, 1	,, Cash ($\frac{2}{5}$ of £1,340)	536 – –	364	195,104
June 1	,, Cash	550 – –	213	117,150	,, 1	,, Goodwill	540 – –	364	196,560
Sept. 1	,, ,,	550 – –	121	66,550	Sept. 1	,, Sundry Drs. ($\frac{2}{5}$ of £4,700)	1,880 – –	121	227,480
Dec. 31	,, Balance of Products			175,790	,, 1	,, Interest on Balance of Products— $\frac{175,790 \times 10}{73,000}$	24 1 8		
,, 31	,, Balance c/d	914 1 8							
		£3,060 1 8		648,264			£3,060 1 8		648,264
Dec. 31	To Cash	914 1 8			Dec. 31	By Balance b/d	914 1 8		

Lowther owes Borchard as follows—

Capital	£2,000 – –
Goodwill	540 – –
Interest	24 1 8
	£2,564 1 8

He pays as follows—

Mar. 1. Cash	£550 – –
June 1. ,,	550 – –
Sept. 1. ,,	550 – –
Dec. 31. ,,	914 1 8
	£2,564 1 8

Although Lowther and Borchard share profits and losses, including profits and losses on realization of the assets, *equally*, yet the actual assets themselves, as in the Balance Sheet, belong to the partners in the proportion that their capitals bear to the total capital, three-fifths and two-fifths respectively.

Repayment of Outgoing Partner's Share by Means of an Annuity. On the death or retirement of a partner, his share of the capital and goodwill is sometimes paid out by means of an annuity for a limited number of years, or for his lifetime, or for the joint lives of himself and wife.

In such cases, the total amount due will be credited to a separate account in the name of the annuitant and debited to a Goodwill Account. This separate account will be credited each year with interest at an agreed rate on the diminishing balance, and debited each year with the payment of the annuity. The amount of the latter will be ascertained from Annuity Tables. If before the expiration of the annuity, this account is extinguished, all future payments of the annuity will be debited to Profit and Loss as a sustained loss; on the other hand, if the annuity terminates before this credit sum is exhausted, the balance will be transferred to the Goodwill Account in reduction thereof. Until the Annuity Account is finally closed, the balance of it will appear each year on the liabilities side of the Balance Sheet. An alternative method would be simply to debit a Goodwill Account each time the annuity is paid.

QUESTIONS

1. What are the respective duties of partners towards the firm?
2. Can a partnership exist without a deed or written agreement? What are such partnerships then called?
3. Outline the principal points which should be specifically dealt with in a partnership deed, in view of the conflicting legal interpretations of the Partnership Act.
4. Explain what is meant by "fixed" Capital Accounts. What is the object of such? Draw up a Balance Sheet both ways in order to illustrate your answer.
5. Explain the nature and treatment of "Partners' Advances." Why are such sums not put in as additions to Capital?
6. Explain the object and treatment of "Partners' Salaries." Is the salary always drawn out?
7. Why is it at times necessary to charge interest on Capital in a partnership? How is such interest dealt with in the books?
8. When is it necessary in a partnership to charge interest on Drawings, and when not? Give reasons in each case for your answer.
9. Submit *pro forma* Drawing Accounts of three kinds to illustrate actual business practice.
10. What is meant by partners' Current Accounts? How do they differ from partners' Drawing Accounts?

LIMITED PARTNERSHIPS

Definition. A Limited Partnership is a partnership formed under the Limited Partnerships Act, 1907, which came into operation on the 1st January, 1908.

Meanings of Terms. By Section 3—

"Firm," "firm name," and "business" have the same meanings as in the Partnership Act, 1890.

"General Partner" shall mean any partner who is not a limited partner as defined by this Act.

Constitution of a Limited Partnership. By Section 4—

(2) A limited partnership shall not consist, in the case of a partnership carrying on the business of banking, of more than ten persons, and, in the case of any other partnership, of more than twenty persons, and must consist of one or more persons called GENERAL PARTNERS, who shall be liable for all debts and obligations of the firm, and of one or more persons to be called LIMITED PARTNERS, who shall at the time of entering into such partnership contribute thereto a sum or sums as capital or property valued at a stated amount, and who shall not be liable for the debts or obligations of the firm beyond the amount so contributed.

(4) A body corporate may be a Limited Partner.

Limited Partner's Capital a Fixed Contribution. Section 4 (3) enacts—

A Limited Partner shall not during the continuance of the partnership, either directly or indirectly, draw out or receive back any part of his contribution, and if he does so draw out or receive back any such part shall be liable for the debts and obligations of the firm up to the amount so drawn out or received back.

Registration Required. By Section 5 of the Act it is enacted that—

Every limited partnership must be registered as such in accordance with the provisions of this Act, or in default thereof it shall be deemed to be a general partnership, and every Limited Partner shall be deemed to be a General Partner.

The partnership must be registered by sending to the Registrar of Companies a statement, signed by all the partners, giving (Section 8), the following particulars—

1. The firm name.
2. The general nature of the business.
3. The principal place of business.
4. The full name of each of the partners.
5. The term, if any, for which the partnership is entered into, and the date of its commencement.
6. A statement that the partnership is limited, and the description of every limited partner as such.
7. The sum contributed by each limited partner, and whether paid in cash, or how otherwise.

Notice of any change of the above must be sent to the Registrar within seven days. A registration fee of £2 is payable, and an *ad*

valorem stamp duty of £1 per cent on the amount introduced by the limited partner or partners, or any subsequent increase. Any person may inspect the Register of Limited Partnerships on payment of 1s., and may also obtain copies of any documents on payment of the prescribed fees.

Modifications of Partnership Law in the Case of Limited Partnerships. Section 6 enacts as follows—

(1) A Limited Partner shall not take part in the management of the partnership business, and shall not have power to bind the firm:

Provided that a Limited Partner may by himself or his agent at any time inspect the books of the firm and examine into the state and prospects of the partnership business, and may advise with the partners thereon.

If a Limited Partner takes part in the management of the partnership business he shall be liable for all debts and obligations of the firm incurred while he so takes part in the management as though he were a General Partner.

(2) A limited partnership shall not be dissolved by the death or bankruptcy of a Limited Partner, and the lunacy of a Limited Partner shall not be a ground for dissolution of the partnership by the Court unless the lunatic's share cannot be otherwise ascertained and realized.

(3) In the event of the dissolution of a limited partnership its affairs shall be wound up by the General Partners unless the Court otherwise orders.

Rights and Duties of Limited and General Partners. These are determined by Section 6 (5), which says—

Subject to any agreement express or implied between the partners—

(*a*) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the General Partners.

(*b*) A Limited Partner may, with the consent of the General Partners, assign his share in the partnership, and, upon such assignment, the assignee shall become a Limited Partner with all the rights of the assignor.

(*c*) The other Partners shall not be entitled to dissolve the partnership by reason of any Limited Partner suffering his share to be charged for his separate debt.

(*d*) A person may be introduced as a Partner without the consent of the existing Limited Partners.

(*e*) A Limited Partner shall not be entitled to dissolve the partnership by notice.

Application of General Partnership Law. Section 7 of the Act enacts as follows—

Subject to the provisions of this Act, the Partnership Act, 1890, and the rules of equity and of common law applicable to partnerships, except so far as they are inconsistent with the express provisions of the last-mentioned Act, shall apply to limited partnerships.

Advantages and Disadvantages of Limited Partnerships. In the case of the Limited Partner the advantages are (1) that his liability is limited to the amount he has agreed to contribute, and (2) that he can share in the profits of the partnership without increasing this fixed liability. This enables a capitalist to provide funds for inventors to carry out their ideas, also friends to finance a young man setting up in business, and to share in any benefits accruing, without incurring any further risk beyond the fixed

liability. The disadvantages are (1) the Limited Partner cannot withdraw any part of his capital, (2) he cannot take part in the management, (3) he cannot dissolve the partnership by giving notice, (4) other partners can be introduced without his consent, (5) there is publicity consequent upon registration and open inspection of the Register.

As regards the General Partner the advantages are (1) fresh capital can be obtained without the expense and formalities of converting the business into a limited company, or without mortgaging his property, (2) the Limited Partner cannot interfere with the management of the business, (3) a new partner can be introduced without the consent of the Limited Partner, (4) there is no fear of capital being suddenly withdrawn, as the death or bankruptcy of the Limited Partner does not of itself dissolve the partnership, neither can the Limited Partner dissolve it by giving notice. The disadvantages to him are, chiefly, compulsory registration, and the consequent publicity through anyone being able to inspect the Register and obtain copies of any document.

Winding up of Limited Partnerships. The provisions of the Bankruptcy Act, 1914, apply to Limited Partnerships in like manner as if they were ordinary partnerships, and on all the General Partners being adjudged bankrupt, the assets of the Limited Partnership vest in the trustee.

QUESTIONS

1. What is meant by "goodwill" in a partnership? How does goodwill arise? When is goodwill brought into the books, and when not?
2. How is the value of the goodwill of a business arrived at?
3. In what different ways is goodwill treated in the case of an incoming partner who pays a premium for a share therein?
4. When assets are re-valued on admission of a new partner, how should any appreciation or depreciation thereof be treated in the books?
5. Explain the phrases "Guarantee of Assets and Liabilities," and "Preferential Claim on Profits." Under what circumstances do such things arise, and how are they dealt with in the books?
6. How is goodwill valued and treated in the case of an outgoing partner?
7. What is meant by "Policies of Survivorship Assurance"? Explain their treatment in the books.
8. How is goodwill treated on the sale of a partnership business?
9. What various methods are there of repaying an outgoing partner his share in the partnership?
10. Explain the method of treatment in the books where an outgoing partner's share is being repaid by means of an annuity.
11. What are the advantages and disadvantages of limited partnerships?

EXERCISE XII

1. What constitutes a partnership, and can a partnership exist without each partner becoming personally liable for the firm's responsibilities to creditors?

John Leach and William Nash had carried on business as linen drapers for some years, but without any partnership deed, or without any arrangement as to the course to be adopted in the event of the death of either party. The business

had been a profitable one, and the accounts had been made up yearly on the 31st December, and professionally audited by an auditor called in for the purpose. Leach died suddenly in July last, leaving his entire estate to his widow. What course would Nash have to adopt under the circumstances, and when would Leach's estate cease to have an interest in the profits of the business?

(*London Chamber of Commerce.*)

2. Give the "Drawings Account" of John Robertson as it would appear in the firm's Private Ledger as on 31st December, under the following conditions—

His Capital on 1st January was £5,000.

His drawings were: 1st May, £250; 1st July, £300; 1st November, £200; 1st December, £100.

His share of profits for the year was £795.

Interest is allowed by the firm's Partnership Articles on Capital and charged on withdrawals at the rate of 5 per cent per annum. (*R.S.A.*)

3. A and B are partners in A and B's Coal Stores, and they share profits and losses equally. On 31st December, they had Capital in the business: A, £3,100; and B, £2,600. The assets and liabilities of the firm, as on that date, stood at the following figures in the books: Office Furniture and Fittings, £320; Coal Trucks, £930; Trade Creditors, £848; Cash at Bank, £1,166; Carts, Plant, and Horses, £476; Bills Payable, £652; Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570.

They agreed to take into partnership C, a coal agent, as from 1st January next on the following terms; Profits and Losses to be shared; A, $\frac{2}{5}$ths; B, $\frac{2}{5}$ths; and C, $\frac{1}{5}$th. C was to bring into the partnership "Book Debts" amounting to £560 (less a Provision for Bad Debts of 5 per cent), and the Goodwill of his connexion, valued at £310; while his Capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on 1st January. It was further agreed between A, B, and C that the following adjustments should be made in the figures as shown on A and B's Balance Sheet on 31st December. The Coal Trucks were to be taken at £1,000, and the Carts, Plant, and Horses as at £550, the result of an independent valuation; a Bad Debt Provision of $7\frac{1}{2}$ per cent was to be deducted from outstanding Debtors; the Goodwill of the old firm (A and B) was to be taken at £455; and A was to be paid out from the Bank Balance such a sum as would make his capital equal to B's. The Agreement was carried out.

You are required (*a*) to make the Journal entries necessary to complete the above adjustments, and (*b*) to draw up a Balance Sheet showing the position of the new firm as on 1st January. (*R.S.A.*)

4. Dickson and Bell, having Capitals of £2,000 and £1,500 respectively, admit Peters into partnership on terms that he shall contribute £1,000 as Capital,

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

		£		£
To Interest on Capital—			By Profit	2,500
Dickson . .	£140			
Bell . .	105			
Peters . .	50			
		295		
" Profits divided—				
Dickson . .	£980			
Bell . .	735			
Peters . .	490			
		2,205		
		£2,500		£2,500

and pay them £1,400 as his share of the Goodwill. Interest on Capital to be at 5 per cent per annum (charged to Profit and Loss Account) and profits to be shared in the proportion of capitals. Peters has only £1,000, which he pays in as Capital; and in an attempt to meet the position, the partners raise a "Goodwill Account" for £1,400, which is credited, £800 to Dickson's Capital and £600 to Bell's. You are called in at the end of the year, and find they have closed off the Profit and Loss Account as shown on p. 398. Correct the error made by the partners, and the effect thereof, by Journal entries (which should be fully explanatory). Show the true position of the partners' accounts.

5. The books of Black and White, who are equal partners, are balanced yearly as on 31st December. Before profits are ascertained and divided, 5 per cent interest is allowed upon partners' Capital. Depreciation at the rate of 5 per cent is written off the Plant Account, and a provision of 5 per cent is made for Bad and Doubtful Debts. One year's interest, at the rate of $4\frac{1}{2}$ per cent, is due upon the Loan on Mortgage, and has not yet been passed through the books. The Stock on hand, as on 31st December, was valued at £3,225. The following are the final balances as on 31st December—

	£		£
Purchases	16,450	Trade Charges	400
Manufacturing Wages	2,150	Premium on Lease A/c (6 years unexpired as on 1st January)	2,400
Sales	24,800	Sundry Creditors	15,345
Black's Capital A/c	5,000	Loan on Mortgage	5,000
,, Drawings A/c (including Interest)	550	Freehold Land and Buildings	8,000
White's Capital A/c	2,000	Plant A/c	4,000
,, Drawings A/c (including Interest)	350	Provision for Bad and Doubtful Debts (as on 1st Jan.)	600
Stock (as on 1st January)	3,000	Sundry Debtors	13,100
Salaries	820	Cash at Bank	1,200
Rates and Taxes	325		

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

6. Messrs. Lion and Unicorn are in partnership as chemical manufacturers. Profits or losses are divided equally. Under the deed of partnership the following adjustments are necessary before the division of profits—

Five per cent Interest is allowed on Partners' Capital; 10 per cent Depreciation is to be written off Plant Account and Barges Account; 5 per cent provision is to be made for Bad and Doubtful Debts.

On 31st December the Ledger balances of the firm were as follows—

	£		£
Purchases A/c	63,000	Sundry Creditors	3,860
Barges A/c	3,250	Insurance	265
Repairs and Replacements	3,205	Bad Debts	341
Freight and Marine Insurance	312	,, ,, Provision (1st January)	385
Allowances from Creditors	2,420	Advertising	982
Coal	4,404	,, Suspense A/c	5,800
Gas and Water	302	Cottage Rents Received	117
Machinery and Plant A/c	25,000	Cash in hand	325
Wages	6,221	R. Lion, Capital A/c	59,400
Land and Buildings A/c	13,840	,, Drawings A/c (including Interest)	4,250
Salaries	858	P. Unicorn, Capital A/c	30,000
Sundry Debtors	7,940	,, Drawings A/c (including Interest)	2,050
Sales	74,441		
Cash at Bank	2,185		
Stock (1st January)	25,220		
Rent, Rates, and Taxes	873		

Stock was taken as on 31st December, and was agreed at £30,342. It was also agreed to write off half the Advertising Suspense Account, and to transfer to Building Account £3,000 from Purchases Account, and £250 from Wages Account, representing cost of material and labour spent upon new buildings erected during the year. Prepare Trading and Profit and Loss Accounts for the year ended 31st December and a Balance Sheet as on that day.

(London Chamber of Commerce.)

7. William James and Edward Jones entered into partnership on the 1st January, under the style of James & Jones, as Wholesale and General Ironmongers. On the 1st January, James paid in as his Capital, £3,000, and on the 1st March, Jones paid in as his Capital, £2,000. The profits were to be divided in proportion to the capital brought in. Interest at 5 per cent was to be charged upon their respective drawings, and Jones had to be charged interest at the same rate upon his Capital from 1st January to the 1st March. On 31st December, Stock was taken (which amounted to £2,478), and the book-keeper took out the Trial Balance of the Books, which was as follows—

	£	£
Plant, Tools, etc.	750	
Office Furniture and Fittings	250	
Horses, Carts, and Harness	225	
Purchases	5,750	
Sales		6,020
Rents, Rates, Taxes, and Insurance	187	
Office and General Expenses	125	
Freight and Carriage	115	
Horse Keep	95	
Discounts and Allowances	45	
Interest, Commission, and Bank Charges	32	
Printing, Stationery, and Advertising	15	
Travelling Expenses	120	
Salaries and Wages	1,020	
William James—Capital A/c		3,000
Edward Jones— ,, ,,		2,000
William James—Drawings—		
1st March	80	
1st June	100	
1st September	50	
1st December	120	
Edward Jones—Drawings—		
1st April	50	
1st July	75	
1st October	75	
1st December	75	
Trade Debtors	2,514	
,, Creditors		848
	£11,868	£11,868

Prepare, by Journal entries, the Profit and Loss Account—having first dealt with the interest referred to in the preliminary paragraph—pass the Profit (or Loss, as the case may be) to the partners' Accounts, and then prepare a General Statement of Assets and Liabilities as at the 31st December.

(London Chamber of Commerce.)

8. X. Y, and Z are partners.

Their respective Capitals in the business, as shown by their Balance Sheet on 31st December are: X, £3,000; Y, £2,200; Z, £800. The profit for the year,

amounting to £1,600, has been credited to X, ½ share; Y and Z, ¼ each, and the books have been closed.

During the year they have withdrawn nothing beyond their salaries, which have already been charged to Profit and Loss Account. It is found on 31st March next that interest on the Partners' Capital (5 per cent per annum), as provided by the partnership agreement, has been omitted.

Give the entries you would make in the books to correct this error.

(*West Riding of Yorkshire.*)

9. From the following particulars draw up the liabilities side of the Balance Sheet in two ways, in order to illustrate the difference in the presentation of accounts when the Capitals are (*a*) fixed, (*b*) not fixed—

Bills Payable, £1,706 2s. 8d.; Sundry Creditors, £2,173 13s. 9d.; Outstanding Expenses, £175 3s. 11d.; Loan Account, R. Rudd, £1,500; Capital Accounts, R. Rudd, £7,000; B. Butler, £4,500; Drawing Accounts: Rudd, £1,600; Butler, £1,200; Shares of Profit: Rudd, £1,473 2s. 8d.; Butler, £1,156 13s. 10d.; Interest on Capitals: Rudd, £350; Butler, £225; Interest on Loan: R. Rudd, £75.

10. A. Bassett and P. Palmer are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit D. Dawson as a partner on condition that he brings into the business £1,500 Capital and pays them a premium of £250 for a fifth share in the profits. Make the necessary entries in the books.

11. D. Dutton agrees to admit F. Fletcher into partnership on the following terms: (*a*) That Fletcher brings £2,300 Capital into the business; (*b*) that £300 is to be paid out to Dutton and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

12. A. Dean and B. Gibson are partners in a Timber business, sharing profits and losses equally. On 31st December their Capitals stood at £5,375 and £4,865 respectively. The firm's Assets and Liabilities on the same date were as follows: Plant and Tools, £1,926; Furniture and Fixtures, £105; Sundry Creditors, £920; Cash at Bank, £1,406; Horses, Carts, Waggons, etc., £1,685; Bills Payable, £657; Sundry Debtors, £3,940; Cash in hand, £35; Stock of Timber, £2,720. They agree to take into partnership F. Fir, a Timber Agent, as and from 1st January on the following terms: Profits and Losses to be shared: Dean, two-fifths; Gibson, two-fifths; and Fir, one-fifth. Fir is to bring into the business Sundry Debtors, amounting to £920 (less a Provision of 5 per cent for Bad Debts), and the Goodwill of his connexion, estimated at £350. His Capital in the new business is to be £2,150, the balance of which he is to pay in in Cash on 1st January. It was also agreed between them that the following adjustments should be made as regards the business of Dean and Gibson: Plant to be taken at £2,060, and Horses, Carts, Waggons, etc., £1,720, the values placed on them by a public valuer; a Bad Debts Provision of 5 per cent of the Sundry Debtors to be created; Goodwill to be valued at £1,050; Dean to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Gibson's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the firm prior to commencing business.

13. Smith, Brown and Robinson enter into partnership, as equal partners, for the purpose of purchasing the successful business of Peter White, who is retiring.

The business was taken over as on 1st January, as it stood, upon the basis of the last Balance Sheet, which was as shown at the top of the next page.

The purchase price of the business as a going concern was agreed at £25,000, which amount was duly paid to Peter White.

Cash was paid into the new firm's banking account by the partners as follows: Smith, £12,000; Brown, £10,000; Robinson, £6,000.

Before opening the books of the new firm it was agreed (*a*) to write off the

BALANCE SHEET OF PETER WHITE

	£		£
Capital A/c	20,540	Leasehold Factory . .	12,540
Sundry Creditors . . .	3,218	Machinery and Plant . .	8,200
Provision for Depreciation .	608	Patents A/c	600
		Sundry Debtors . . .	1,560
		Stock on hand . . .	1,458
		Difference in Books . .	8
	£24,366		£24,366

difference in the books; (*b*) to transfer the Provision for Depreciation to Machinery and Plant Account, and to write off a further £200 as depreciation; and (*c*) to write off £200 from Patents Account.

Make the entries necessary to record the above transactions in the books of the new firm, and prepare a Balance Sheet disclosing the position of Smith, Brown, and Robinson upon commencing business.

(*London Chamber of Commerce.*)

14. O. Brown and P. Crew are in partnership, sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £8,000, paying an annual premium of £310, which is debited to the firm's Profit and Loss Account each December. Crew dies on the last day of June, 19. . . The partnership deed provides that his representatives are to receive his Capital as per the last Balance Sheet, plus interest at 5 per cent per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive his share of the Goodwill, estimated at two years' purchase of the average net profits of the last three years before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,073, £2,458, and £2,024 respectively. Crew's Capital as per last Balance Sheet was £3,000, and his Drawings to date of death amount to £720. Make the necessary adjustments and draw up Crew's Account, showing the amount payable to his legal representatives.

15. Assume in the previous exercise that P. Crew's share of the Capital and Goodwill is payable by annual instalments of £2,000, interest at 5 per cent per annum being charged on the outstanding balance. Show the Ledger Account in the firm's books.

16. E. Helm and P. Porter are in partnership, sharing profits and losses equally. Helm agrees to buy out P. Porter, and the position of affairs on this date is as follows—

BALANCE SHEET.—1ST JANUARY

Liabilities	£	*Assets*	£
Sundry Creditors . . .	1,265	Cash	1,525
Capital A/cs—		Sundry Debtors . . .	4,624
E. Helm	3,110	Office Furniture . .	336
P. Porter	2,110		
	£6,485		£6,485

Helm is to take over the Office Furniture at £310, to allow Porter £625 for his share of the Goodwill, and to pay him his proportion as and when realized, interest to be taken into account at 5 per cent per annum. A loss of £224 is

sustained on the Sundry Debtors; and a discount of £30 is obtained from the Creditors. The latter were paid at an average date of four months, and the Debtors were realized at an average date of eight months from the date of dissolution. Helm paid Porter £550 on 1st March, £650 on 1st June, £750 on 1st September, and the balance on 31st December. Draw up the Account Current between Helm and Porter, and show the final payment made to Porter on 31st December.

17. R. Rostron and T. Teale are in partnership. On 1st January their Capitals were: Rostron, £3,750; Teale, £750. During the year they lost £1,070 without reckoning Interest on Capital, which, by the partnership deed, must be allowed at 5 per cent per annum. They share profits and losses $\frac{4}{5}$ths and $\frac{1}{5}$th. Their Drawings during the year were £620 and £350 respectively. Draw up the Profit and Loss and Capital Accounts as at 31st December.

18. (*a*) The profits of the partnership of Austin, Bell & Cooper amounted, on December 31st, to £2,521 5s. On 1st January the Capitals of the partners were as follows: Austin, £6,250; Bell, £4,500; Cooper, £4,500. The partners' Drawings were: Austin, nil; Bell, £350; and Cooper, £350. Interest is to be allowed on Capital at 5 per cent per annum. Profits are divisible thus: Austin, $\frac{3}{7}$ths; Bell and Cooper, $\frac{2}{7}$ths each. Draw up the Profit and Loss and Capital Accounts.

(*b*) On 1st January following they agree to take into partnership P. Peters, with an eighth share of the profits. What amount must he bring in to entitle him to such a share on a par with the Capital of the others as at the previous 31st December, and what will be the new proportions for division?

19. B joined A in partnership on 1st January, and is to have a half share of the profits. The partners' Capitals are to be equal, and their total capital is to be sufficient to convert the bank overdraft of £6,000 into a debit balance of £1,000. B pays A two years' purchase for his half share of the profits. The necessary transactions were carried through by the firm on 1st January. Show what entries would be made in the firm's books to record the transactions.

(*Chartered Accountants.*)

20. M. Mason and B. Box decide to amalgamate their businesses as at 25th April. Their Balance Sheets are as follows—

M. Mason

Liabilities	£	*Assets*	£
Creditors	3,250	Cash in hand	50
Capital	20,500	,, at Bank	3,850
Profit and Loss	1,650	Debtors	6,500
		Stock	5,000
		Land and Buildings	10,000
	£25,400		£25,400

B. Box

Liabilities	£	*Assets*	£
Bank Overdraft	2,105	Cash	125
Creditors	1,895	Debtors	5,750
Capital	5,500	Stock	3,625
	£9,500		£9,500

Mason is to be credited with £3,500 for Goodwill, and Box with £750. Five per cent is to be provided on all Debtors. Box's overdraft is to be paid off out of the private funds of Mason, who is to receive credit therefor. Make the necessary Journal entries, and show Balance Sheet as at commencement of business.

21. A, B, and C enter into partnership on 1st January. Each partner is to draw a like sum per annum for his services, and to share profits according to Capital, and according to the time the Capital is in the business. On 1st January; A pays in £5,000; on 1st April B pays in £4,000; on 1st June, C pays in £4,000; on 1st November, A pays in a further £2,000. The net profits on 31st December amounted to £2,520. How much of the latter sum should each partner receive?

22. S. Simpson agreed to take W. Winder into partnership. Winder was to bring in £6,000. Of this, £2,205 was to be paid for a three-sevenths share of Simpson's profits, calculated at two years' purchase of their average amount, and the remainder was to be Winder's Capital. Simpson was to leave one-half of this purchase money in the concern, in order to make his Capital up to half as much again as that of Winder. What were Simpson's average profits, and what was his Capital before the partnership?

23. X retires from business and agrees to dispose of it to Y. The assets are: Plant, £2,500; Stock, £3,750; Debtors, £4,520. The liabilities, which are to be discharged by Y, are: Sundry Creditors, £3,750. Y brings in as his Capital, £3,500. The purchase money is to be paid by instalments of £1,000 each year, interest at 5 per cent per annum being charged on the unpaid balance. Y is also to pay £2,000 for Goodwill out of the profits, at the rate of one-fourth of the profits each year, after charging interest on the unpaid purchase money. No interest, however, is to be charged on the sums due for Goodwill. The profits for the next five years were as follows: 1st year, £1,750; 2nd year, £1,950; 3rd year, £2,050; 4th year, £2,500; 5th year, £2,065. Show the Profit and Loss Account, the Business Purchase Account, and the Goodwill Account, all up to the completion of the latter.

24. Cox, Mason, and Holding are in partnership, sharing profits and losses in the proportion of 4, 3, and 1 respectively. Holding's share, however, is guaranteed by the other partners at a fixed minimum of £360. The net profits for the current year amount to £1,760. Show by means of an account what amount each partner will receive.

25. C. Carus and O. Kelly entered into partnership on 1st January without, however, drawing up any formal deed of partnership. Carus put in £3,050, and Kelly £2,050, as their Capitals respectively. On 1st March, Carus advanced £1,000 to the firm as a loan, but without any agreement as to interest thereon. On 31st December the net trading profits for the year amounted to £2,760. The partners are unable to agree on the following questions: (*a*) Interest on Loan; (*b*) Interest on Capital; (*c*) division of profits. Draw up a Profit and Loss Account showing how you would deal with these matters.

26. Hart, Capper, and Bonar are in partnership. On 1st January their Capitals were £3,500, £2,520, and £1,740 respectively. Interest at 5 per cent per annum is allowed on Capital, but no interest is chargeable on Drawings. Capper is entitled to a salary of £300 and Bonar to a salary of £250 per annum before division of profits. The partners' Drawings were £850, £650, and £450 respectively. The profit for the year ended 31st December after charging partners' Salaries, but before charging Interest on Capital, amounted to £2,050. The first £1,000 of divisible profit is to be shared thus: Hart 50 per cent; Capper, 30 per cent; Bonar, 20 per cent; the balance of profits is to be shared equally. Draw up the Profit and Loss Account and the Partners' Capital Accounts.

27. B. Bartle and W. West are in partnership, and their profits and losses for the last three years are: 1st year, Loss, £560; 2nd year: Profit, £2,749; 3rd year: Profit, £3,505. The above results are after charging Interest on Capital at 5 per cent per annum, Interest at 5 per cent per annum on Loan, £4,000 from F. Flynn (their manager), and the latter's salary of £450 per annum. The partners' Capitals, which have not been touched, are: Bartle, £12,000; West, £8,000. Profits and Losses are divisible according to Capitals. At the end of the third year, Bartle & West agree to regard Flynn as having been a partner from the beginning, and to adjust the accounts accordingly. His Loan is to be treated as Capital, and he is to have a sixth share of the profits. Flynn's Loan, however, is to bear interest at 4 per cent instead of 5 per cent, and his salary is to be reduced to £350 per annum; both these alterations are to take effect over the past three years. What adjustments will be necessary to carry out the above arrangements?

28. Brown joins the firm of Smith and Jones as a limited partner, and contributes £9,000 as his Capital on 31st March. The annual accounts are made up to the end of September following, and Brown's share of profit to that date is £675, which, with a further sum of £325 in Cash, he adds to his Capital in the firm. At the end of December he assigns two-fifths of his Capital to his eldest son, and two-fifths to four other children equally as limited partners. Show the several amounts of the Capital as thus divided, and state what is required to comply with the Limited Partnerships Act, 1907, on the above changes taking place.

(*Chartered Accountants.*)

29. M and N are in partnership, sharing profits in equal portions. They decide to admit K as an equal partner with themselves. K is unable to contribute to the Capital, or pay any consideration for his share in the Goodwill of the firm. How do you propose adjusting matters in order that M and N do not suffer, or K benefit by K's inability to contribute to the partnership Capital, yet they shall each receive the same quota of the first year's profit?

30. A and B carry on business in partnership as Timber Merchants. They divide profits: A two-thirds, B one-third, and on 31st December their Balance Sheet was as follows—

Liabilities	£	*Assets*	£
Sundry Creditors and Bills Payable	3,000	Leasehold Land and Buildings	2,000
Capital A/cs—		Plant and Machinery . .	1,800
A	4,000	Sundry Debtors and Bills Receivable . . .	2,500
B	2,000	Stock	2,100
		Cash at Bank and in hand .	600
	£9,000		£9,000

They agree to take C into partnership on 1st January. The profits are to be divided: A two-fifths, B two-fifths, C one-fifth. A is to be a limited partner, and B and C general partners. C is to pay in £1,000 as Capital. The assets of the business are to be taken over by the new firm on the following terms: Land and Buildings at £2,250. Plant and Machinery subject to 10 per cent deduction for depreciation. Sundry Debtors and Bills Receivable subject to an allowance of £500 to cover Bad Debts, Discounts, and cost of collection, Stock at £1,800. The new firm also takes over the liabilities of the old firm as shown in the above Balance Sheet. A agrees with B that any loss on the taking over of the assets by the new firm shall be borne by him (A). A's Capital as limited partner in the new firm is to be £3,000. B's Capital is to be £2,000. Open the books of the new firm, and make out the Balance Sheet as on 1st January, presuming C's Capital to have been paid in.

(*Chartered Accountants.*)

CHAPTER XIII

DISSOLUTION OF PARTNERSHIP

When is a Partnership Dissolved? Subject to any agreement between the partners, a partnership is dissolved—

(*a*) If entered into for a fixed term, by the expiration of that term.

(*b*) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.

(*c*) If entered into for an undefined time, by any general partner giving notice to the other or others of his intention to dissolve the partnership.

In the last-mentioned case the partnership is dissolved as from the date mentioned in the notice as the date of dissolution, or, if no date is so mentioned, as from the date of the communication of the notice.

Dissolution by Bankruptcy, Death, Charge, or Illegality. Subject to any agreement between the partners, every partnership is dissolved as regards all the partners by the death or bankruptcy of any partner.

A partnership may, at the option of the other partners, be dissolved if any partner suffers his share of the partnership property to be charged under the Partnership Act for his separate debt.

A partnership is in every case dissolved by the happening of any event which makes it unlawful for the business of the firm to be carried on or for the members of the firm to carry it on in partnership.

Dissolution by the Court. On application by a partner the Court may decree a dissolution of the partnership in any of the following cases—

(*a*) When a partner is found lunatic by inquisition, or in Scotland by cognition, or is shown to the satisfaction of the Court to be of permanently unsound mind, in either of which cases the application may be made as well on behalf of that partner by his committee or next friend or person having title to intervene as by any other partner.

(*b*) When a partner, other than the partner suing, becomes in any other way permanently incapable of performing his part of the partnership contract.

(*c*) When a partner, other than the partner suing, has been guilty of such conduct, as in the opinion of the Court, regard being had to the nature of the business, is calculated to affect prejudicially the carrying on of the business.

(*d*) When a partner, other than the partner suing, wilfully or persistently commits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him.

(*e*) When the business of the partnership can only be carried on at a loss.

(*f*) Whenever in any case circumstances have arisen which, in the opinion of the Court, render it just and equitable that the partnership be dissolved.

Notice of Dissolution or Change. Where a person deals with a firm after a change in its constitution, he is entitled to treat all

apparent members of the old firm as still being members of the firm until he has notice of the change.

An advertisement in the *London Gazette* as to a firm whose principal place of business is in England or Wales, in the *Edinburgh Gazette* as to a firm whose principal place of business is in Scotland, and in the *Dublin Gazette* as to a firm whose principal place of business is in Eire, shall be notice as to persons who had no dealings with the firm before the date of the dissolution or change so advertised. A firm whose principal place of business is in Northern Ireland is required to give notice in the *Belfast Gazette.*

Bearing in mind that this advertisement only serves as notice to those who have not had previous dealings, it is considered advisable for the retiring partner to circularize all creditors and obtain a written release from future debts from the other partners if he is to be sure of complete freedom from further liability.

Continuing Authority of Partners for Winding-up Purposes. After the dissolution of a partnership the authority of each partner to bind the firm, and the other rights and obligations of the partners continue notwithstanding the dissolution so far as may be necessary to wind up the affairs of the partnership, and to complete transactions begun but unfinished at the time of the dissolution.

Provided that the firm is in no case bound by the acts of a partner who has become bankrupt; but this proviso does not affect the liability of any person who has after the bankruptcy represented himself or knowingly suffered himself to be represented as a partner of the bankrupt.

Rule for Distribution of Assets. By Section 44 of the Partnership Act, 1890, in settling accounts between the partners after a dissolution of partnership, the following rules must, subject to any agreement, be observed—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(*b*) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein.

(2) In paying to each partner *rateably* what is due from the firm to him for advances as distinguished from capital.

(3) In paying to each partner *rateably* what is due from the firm to him in respect of capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

Formula for Treatment of a Dissolution of Partnership. For making the necessary entries in the books in connexion with an

ordinary dissolution of partnership, the following formula will prove useful to the student—

1. Open a Realization Account and debit it with the total of the assets (except Cash or a debit balance of any of the partners' Capital Accounts).

2. Open accounts for Cash, Creditors, Partners' Loans, Partners' Capitals, and enter therein the balances as in the Balance Sheet.

3. Debit Cash and credit Realization Account with the proceeds of the sale of the assets. If any of the assets are not sold but are taken over by one of the partners, then debit that partner's Capital Account and credit Realization Account with the agreed value.

4. Credit Cash and debit Realization Account with the expenses of winding up.

5. Pay off (*a*) Creditors, (*b*) Partners' Loans, i.e. credit Cash and debit these accounts.

6. Balance the Realization Account and transfer the balance, profit or loss as the case may be, to the partners' Capital Accounts. If, as the result of a loss on realization, the Capital Account of one of the partners is put temporarily in debit, that partner must bring in cash to repay to the firm his indebtedness; debit Cash and credit partner's Capital Account. The deficiency may also be made good by transfer from such partner's Loan Account, if he has one.

7. Balance Partner's Capital Accounts and divide the cash according to these credit balances of Capital.

NOTE. Students often divide the cash between the partners in the same proportion as *profits and losses*, but this is quite wrong. The debit balance of cash at the close must be equal to the *total* of the credit balances of the Capital Accounts; and the cash paid out to each partner must be *the amount standing to the credit of his Capital Account*, no more, no less.

Garner *v.* **Murray.** Whenever a partner is unable to repay to the firm his indebtedness, the ruling of *Garner* v. *Murray* must be applied. This decision by Mr. Justice Joyce, in November, 1903, was "that the solvent partners are only liable to make good their share of the deficiency, and that the remaining assets should be divided among them in proportion to their capitals." In other words, the loss caused by the default of an insolvent partner is to be borne in proportion to *capital*, and not in the proportion that ordinary losses are to be borne. After considerable discussion and controversy, it is thought that the correct interpretation of this ruling is for the solvent partners *to bring in cash* to meet their share of the loss on realization.

For the benefit of accountancy students it may, perhaps, be as well to give a short summary of the *Garner* v. *Murray* case, and of the great controversy to which it gave rise amongst professional accountants.

Garner, Murray, and Wilkins entered into partnership under a parol agreement to contribute capital in certain unequal shares but to divide profits equally. On

dissolution the assets realized sufficient to pay the creditors and advances of two of the partners, but were insufficient to repay the partners' capitals. The position was approximately as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital A/cs—		Cash	1,916
Garner. . . .	2,500	Wilkins—Overdrawn . .	263
Murray . . .	314	Deficiency of Firm . .	635
	£2,814		£2,814

Wilkins was insolvent, and unable to contribute anything. Mr. Justice Joyce held that a loss arising through the default of one of the partners must be distinguished from an ordinary trading loss or loss on realization. That, provided outside creditors' claims had been met, the liability of each separate partner was limited to making good *his* share of the deficiency. That, in the case in question, each partner should be treated as liable to contribute an equal third share of the deficiency, and that the assets should then be applied in paying each partner rateably what was due to him in respect of capital.

The decision caused great surprise in accountancy circles, which had not previously discriminated between an *internal* and an *external* loss, i.e. between a loss occasioned by the default of a partner, and an ordinary trading loss. As previously explained, under the old method the £263 would have been added to the £635, and the total loss of £898 would have been borne by the solvent partners in the same *relative* proportions in which they had previously shared profits, namely, 1 : 1, or one-half each. The effect of Mr. Justice Joyce's decision, however, was that the £635 should be shared by *all* the partners in the same way that they shared ordinary profits and losses, i.e. one-third each; but that Wilkins's £263 and share of deficiency should be borne by the solvent partners in the proportion of their capitals. For although the solvent partners are not liable to "make good" the insolvent partner's overdraft and share of deficiency, yet inasmuch as his default causes a deficiency of assets, it follows that the solvent partners actually *bear* the loss of this amount. And as this loss represents a deficiency of cash, it follows that the solvent partners bear this loss of cash in the same proportion in which they share the actual cash, namely, in proportion to their capital, i.e. in the ratio which each partner's capital bears to the total capital of the partners. This can be plainly seen from the worked example No. 4.

The decision occasioned much comment and discussion, which finally developed into a sharp controversy, raging chiefly round the precise meaning of the judge's words, "making good his share of the deficiency." Many accountants contended it meant that the solvent partner should bring in cash; others contended this was unnecessary, so long as there was a sufficient credit balance in his Capital Account to liquidate his share of the firm's deficiency. The arguments and counter-arguments are as follows—

1. The solvent partner should bring in cash, which should be debited to Cash Account and credited to the Deficiency Account, thus actually carrying out the letter of the law, and "making good" their shares of the deficiency. The arguments against this course are: (1) that it is unreasonable to ask a partner to bring in cash when he already has a credit balance in his Capital Account; (2) that it might be impossible, as the partner might have sunk the whole of his capital in the business; (3) that it is quite contrary to accountancy practice in other cases, where, if the result of a realization is to place a partner's account in debit, such deficit is often made good by transfer from his Current Account, and even from his Loan Account

if he has one. In reply, it is urged that these objections are not points of equity but merely sentimental reasons and questions of convenience, which do not invalidate the argument that this method fulfils the letter of the law.

2. The solvent partners should have their shares of the deficiency debited to their Capital Accounts. In opposition to this course it is contended (1) that debiting a loss to capital is not making it good; (2) that the Capital Accounts as per last Balance Sheet represent the partners' agreed shares of such capital, and are, according to the judgment, to form the basis for distribution of the assets; (3) that to debit the shares of deficiency to the Capital Accounts would alter the Capital Accounts and destroy the basis for the distribution of the assets; (4) that this flaw in fulfilling the conditions of the judgment vitiates this method.

3. The solvent partners should be shown on the Balance Sheet as debtors for their shares of the deficiency. This would prevent the Capital Accounts being altered. The objections raised to this course are (1) that it is an attempt to carry out the judgment by means of a paper entry instead of an actual contribution; (2) that in the case of fixed capitals a partner who had a credit balance in his Current Account could offset it against this debit, and thus render this method futile.

1. Profit on Realization

Example. Long and Short are in partnership, sharing profits and losses two-thirds and one-third respectively. The state of affairs at the date of the dissolution is as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors	2,750	Cash	725
Capital A/cs—		Sundry Debtors	2,168
Long	3,540	Stock	4,029
Short	2,107	Fixtures and Fittings	1,475
	£8,397		£8,397

The Fixtures and Fittings are taken over by Long at the agreed price of £1,425. The Debtors and Stock realize £7,265, and the expenses of winding up are £115. Close the books of the firm, showing the Ledger Accounts.

Dr. REALIZATION ACCOUNT *Cr.*

		£		£
To Sundry Assets		7,672	By Cash	7,265
,, Cash (Expenses)		115	,, Long (Capital A/c) Fixtures taken over as agreed	1,425
,, Balance (profit)—				
Long, $\frac{2}{3}$	£602			
Short, $\frac{1}{3}$	301			
		903		
		£8,690		£8,690

CASH BOOK

Dr.	£		Cr. £
To Balance . . .	725	By Realization A/c (Expenses) . . .	115
,, Realization A/c—Proceeds of Sale of Assets . . .	7,265	,, Sundry Creditors . .	2,750
		,, Balance—	
		Long . . .	2,717
		Short . . .	2,408
	£7,990		£7,990

SUNDRY CREDITORS

Dr.	£		Cr. £
To Cash . . .	2,750	By Balance . .	2,750

LONG.—CAPITAL ACCOUNT

Dr.	£		Cr. £
To Fixtures, etc. .	1,425	By Balance . .	3,540
,, Cash . . .	2,717	,, Realization A/c—$\frac{2}{3}$ Profit . .	602
	£4,142		£4,142

SHORT.—CAPITAL ACCOUNT

Dr.	£		Cr. £
To Cash . . .	2,408	By Balance . .	2,107
		,, Realization A/c—$\frac{1}{3}$ Profit . .	301
	£2,408		£2,408

2. Loss on Realization

Example. Topping and Bottomly are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors . .	3,344	Cash	638
Topping (Loan A/c) . .	1,200	Sundry Debtors . . .	3,146
Capital A/cs—		Stock	4,285
Topping . . .	4,025	Fixtures and Fittings . .	1,275
Bottomly . . .	2,275	Goodwill	1,500
	£10,844		£10,844

Dr. HIGH.—CAPITAL ACCOUNT Cr.

	£		£
To Realization A/c ($\frac{3}{5}$ of Loss)	828	By Balance	765
		,, Cash	63
	£828		£828

Dr. LOWE.—CAPITAL ACCOUNT Cr.

	£		£
To Realization A/c ($\frac{2}{5}$ of Loss)	552	By Balance	430
		,, Cash	122
	£552		£552

NOTE. With this example the student finds himself confronted at the outset with the difficulty of ascertaining the book value of the Assets that were sold. Such a difficulty often presents itself in connexion with examination work. It is solved as follows: The total of the Liabilities side of the Balance Sheet was £3,945 (£765 + £430 + £2,750). Inasmuch as the two sides of the Balance Sheet equal each other, the total value of the Assets must have been £3,945; and since the Cash in hand was £76, the book value of the other Assets must have amounted to £3,869 (£3,945 less £76).

4. A Loss on Realization, some partners being solvent and some insolvent, necessitating the rule of Garner *v.* Murray being applied

Example. A, B, and C are in partnership, sharing profits and losses three-sixths, two-sixths, and one-sixth respectively. The state of affairs at the date of dissolution is as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors	3,875	Cash	986
A (Loan A/c)	250	Sundry Debtors	3,056
Capital A/cs—		Stock	1,844
A	1,520	Fixtures and Fittings	720
B	1,120	C, Capital A/c (*Dr.* balance)	159
	£6,765		£6,765

The assets other than Cash realized £4,844, and the expenses of winding up are £52. A and B are solvent, but C is unable to bring in anything. Make the necessary adjustments, and draw up a Balance Sheet showing the position of affairs before applying the *Garner* v. *Murray* rule, after which close the books of the firm showing the Ledger Accounts.

CASH BOOK

Dr.	£	*Cr.*	£
To Balance	986	By Realization A/c (Expenses)	52
,, Realization A/c (Proceeds of Sale of Assets)	4,844	,, Sundry Creditors	3,875
,, Deficiency A/c (Cash brought in)—		,, A (Loan A/c)	250
A	414	,, Balance c/d	2,343
B	276		
	£6,520		£6,520
To Balance b/d	2,343		

REALIZATION ACCOUNT

Dr.	£	*Cr.*		£
To Sundry Assets	5,620	By Cash (Proceeds of Sale)		4,844
,, Cash (Expenses)	52	,, Deficiency A/c (transfer)—		
		A $\frac{3}{6}$	£414	
		B $\frac{2}{6}$	276	
		C $\frac{1}{6}$	138	
				828
	£5,672			£5,672

SUNDRY CREDITORS

Dr.	£	*Cr.*	£
To Cash	3,875	By Balance	3,875

A.—LOAN ACCOUNT

Dr.	£	*Cr.*	£
To Cash	250	By Balance	250

DEFICIENCY ACCOUNT

Dr.	£	*Cr.*	£
To Realization A/c, loss b/f	828	By Cash—	
		A	414
		B	276
		,, Balance c/d	138
	£828		£828
To Balance b/d.	138		

The position of affairs before the solvent partners paid in their shares of the firm's deficiency was as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital A/cs—		Cash	1,653
A	1,520	C—Overdrawn	159
B	1,120	Deficiency of Firm (loss on Realization)	828
	£2,640		£2,640

which subsequently becomes—

BALANCE SHEET

Liabilities	£	*Assets*		£
Capital A/cs—		Cash		2 343
A	1,520	C—		
B	1,120	Capital A/c Overdrawn	£159	
		Share of Deficiency	138	
				297
	£2,640			£2,640

Applying the *Garner* v. *Murray* rule, the solvent partners will receive and lose the following amounts—

A receives $\frac{1520}{2640}$ of £2,343 = £1,349 and loses $\frac{1520}{2640}$ of £297 = £171
B ,, $\frac{1120}{2640}$ of £2,343 = £ 994 and loses $\frac{1120}{2640}$ of £297 = £126

The Ledger Accounts will be as follows—

Dr. A.—CAPITAL ACCOUNT *Cr.*

	£		£
To Cash	1,349	By Balance	1,520
,, Transfer from C's A/c	171		
	£1,520		£1,520

Dr. B.—CAPITAL ACCOUNT *Cr.*

	£		£
To Cash	994	By Balance	1,120
,, Transfer from C's A/c	126		
	£1,120		£1,120

C.—CAPITAL ACCOUNT

Dr.	£		Cr.	£
To Capital A/c (Overdrawn) . .	159		By Transfer to—	
,, Share of Firm's Deficiency .	138		A, Capital A/c .	171
			B, ,, ,, .	126
	£297			£297

CASH BOOK

Dr.	£		Cr.	£
To Balance	2,343		By Capital A/cs—	
			A . . .	1,349
			B . . .	994
	£2,343			£2,343

Procedure prior to Garner *v.* Murray Decision. Prior to the *Garner* v. *Murray* decision, it was thought that the amount overdrawn by the insolvent partner, together with his share of the firm's deficiency, constituted a loss to be treated like ordinary partnership trading losses, i.e. to be borne by the solvent partners in the same *relative* proportions in which they shared profits. For the sake of illustration consider the previous example, the Balance Sheet of which would have appeared as follows—

BALANCE SHEET

Liabilities	£	*Assets*		£
Capital A/cs—		Cash		2,343
A	1,520	C. Capital—		
B	1,120	Overdrawn	£159	
		Share of Deficiency	138	
				297
	£2,640			£2,640

A and B share profits in the ratio of 3: 2, and would therefore bear the loss of the £297 in the proportions of three-fifths and two-fifths. Thus, the final result would have been as under—

BALANCE SHEET

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.
Capital A/cs			Cash	2,343 – –
A . . .	1,520 – –			
Less ⅗ of £297	178 4 –			
		1,341 16 –		
B . . .	1,120 – –			
Less ⅖ of £297	118 16 –			
		1,001 4 –		
		£2,343 – –		£2,343 – –

Present Differences of Opinion *re* **Garner** *v.* **Murray Decision.** Many accountants do not even now admit the solvent partners' obligation to bring in cash to make good their shares of the firm's deficiency. They merely bring the partners' contributions *into account*, i.e. assume these amounts to be part of the cash available. It makes no difference to the final answer, as can be seen from the following, which represents their method of working the example in question. The position of affairs after realization was as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital A/cs—		Cash	1,653
A	1,520	C.—Capital—Overdrawn	159
B	1,120	Deficiency of Firm (Loss on Realization)	828
	£2,640		£2,640

Bringing the contributions into account, we arrive at the following position—

BALANCE SHEET

Liabilities	£	*Assets*		£
Capital A/cs—		Cash		1,653
A	1,520	A's Contribution to Deficiency, $\frac{3}{6}$ of £828		414
B	1,120	B's Contribution to Deficiency, $\frac{2}{6}$ of £828		276
				2,343
		C—Overdrawn	£159	
		Share of Deficiency, $\frac{1}{6}$ of £828	138	297
	£2,640			£2,640

The amount of cash available has now been determined, and must be applied to the repayment of the partners' capitals *pro rata.* The final statement showing how much each partner will receive is, therefore, as shown on next page.

FINAL STATEMENT

	£		£
Amounts due to Partners in respect of Capital—		Cash	1,653
A—			
$\frac{1520}{2640}$ of £2,343 = £1,349			
Less Contribution due . . 414	935		
B—			
$\frac{1120}{2640}$ of £2,343 = £994			
Less Contribution due . . 276	718		
	£1,653		£1,653

5. A Loss on Realization, and all the partners insolvent, the Creditors being paid a dividend

Example. Jones and Brown are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors . .	6,270	Cash	405
Capital A/cs—		Sundry Debtors. . .	2,342
Jones	2,100	Stock	2,070
Brown	1,200	Fixtures and Fittings . .	1,486
		Goodwill	3,267
	£9,570		£9,570

The Assets other than Cash realize £4,465, and the expenses of winding up are £176. Close the books of the firm.

Dr. CASH BOOK *Cr.*

	£		£
To Balance . . .	405	By Realization A/c (Expenses)	176
,, Realization A/c— (Proceeds of Sale of Assets) . . .	4,465	,, Sundry Creditors— Dividend of approx. 14s. 11¾d. in the £ on £6,270 . . .	4,694
	£4,870		£4,870

Dr. REALIZATION ACCOUNT Cr.

	£		£
To Sundry Assets .	9,165	By Cash (Proceeds of Sale) . .	4,465
,, Cash (Expenses) .	176	,, Balance (loss carried to Profit and Loss A/c) .	4,876
	£9,341		£9,341

Dr. SUNDRY CREDITORS Cr.

	£		£
To Cash (Dividend of approx. 14s. 11¾d. in £) .	4,694	By Balance . .	6,270
,, Balance transferred to Profit and Loss A/c .	1,576		
	£6,270		£6,270

Dr. PROFIT AND LOSS ON REALIZATION ACCOUNT Cr.

	£		£
To Realization A/c—(Balance b/f) .	4,876	By Balance from Sundry Crs. A/c	1,576
		,, Capital A/cs—Jones ⅔ £2,200; Brown ⅓ 1,100	3,300
	£4,876		£4,876

Dr. JONES.—CAPITAL ACCOUNT Cr.

	£		£
To Profit and Loss A/c . .	2,200	By Balance . .	2,100
		,, Balance c/d .	100
	£2,200		£2,200
To Balance b/d .	100	By Brown Capital A/c (transfer) .	100

Dr. BROWN.—CAPITAL ACCOUNT Cr.

	£		£
To Profit and Loss A/c	1,100	By Balance . .	1,200
,, Balance c/d .	100		
	£1,200		£1,200
To Jones Capital A/c (transfer) .	100	By Balance b/d .	100

NOTE. In this case a Profit and Loss Account is opened, debited with the loss on realization, and credited with the unpaid balance of the Creditors' Account, which makes a paper profit. The balance of the Profit and Loss Account is carried to the Capital Accounts in the usual way. The Capital Accounts are then closed by transfer of their corresponding but opposite balances.

Alternative Form of Realization Account. In some cases, the Asset Accounts are not closed by transfer to a Realization Account, being left open. The cash received for the assets is debited in the Cash Book and credited to the various Asset Accounts, the balances of which, representing either gains or losses, are carried to a Realization Profit and Loss Account. The actual gain or loss on each asset is thus easily perceived. For examination purposes, the method already outlined is recommended.

Example. Smith and Roff are equal partners in a retail concern. They decide to retire, and sell their business on 31st December, the position of affairs on this date being as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors . .	720	Cash at Bank . . .	620
Capital A/cs—		Sundry Debtors. . .	1,670
Smith	3,500	Stock-in-trade . . .	2,480
Roff	2,500	Lease	1,300
		Fixtures and Fittings . .	650
	£6,720		£6,720

The Lease was sold for £1,650, Fixtures and Fittings for £725, and Stock for £2,450. The Book Debts realized only £1,550, £45 being allowed for discount. The creditors were paid £700 in full settlement. The expenses of winding up were £55. Close the books of the firm, showing the result of the realization, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

Dr. LEASE *Cr.*

19..		£	19..		£
Jan. 1	To Balance . .	1,300	Dec. 31	By Cash . .	1,650
Dec. 31	,, Realization A/c (gain) . .	350			
		£1,650			£1,650

Dr. FIXTURES AND FITTINGS *Cr.*

19..		£	19..		£
Jan. 1	To Balance . .	650	Dec. 31	By Cash . .	725
Dec. 31	,, Realization A/c (gain) . .	75			
		£725			£725

Dr. SUNDRY DEBTORS *Cr.*

19..		£	19..		£
Jan 1	To Balance . .	1,670	Dec. 31	By Cash . .	1,550
			,, 31	,, Discount .	45
			,, 31	,, Bad Debts .	75
		£1,670			£1,670

Dr. STOCK *Cr.*

19..		£	19..		£
Jan. 1	To Balance . .	2,480	Dec. 31	By Cash . .	2,450
			,, 31	,, Realization A/c (loss) . .	30
		£2,480			£2,480

Dr. SUNDRY CREDITORS *Cr.*

19..		£	19..		£
Dec. 31	To Cash . .	700	Jan. 1	By Balance . .	720
,, 31	,, Discount .	20			
		£720			£720

Dr. BAD DEBTS *Cr.*

19.. Dec. 31	To Sundry Debtors	£ 75	19.. Dec. 31	By Realization A/c (loss) . .	£ 75

Dr. DISCOUNTS RECEIVED *Cr.*

19.. Dec. 31	To Realization A/c (gain) . .	£ 20	19.. Dec. 31	By Sundry Crs. .	£ 20

Dr. DISCOUNTS ALLOWED *Cr.*

19.. Dec. 31	To Sundry Drs. .	£ 45	19.. Dec. 31	By Realization A/c (loss) . .	£ 45

Dr. REALIZATION PROFIT AND LOSS ACCOUNT *Cr.*

19..	*Losses*	£	19..	*Gains*	£
Dec. 31	To Stock . .	30	Dec. 31	By Lease . .	350
	,, Discounts allowed .	45		,, Fixtures and Fittings .	75
	,, Bad Debts .	75		,, Discounts Received .	20
	,, Cash (Expenses) .	55			
	,, Capital A/cs (net gain)— Smith ½ £120 Roff ½ 120	240			
		£445			£445

Dr. SMITH.—CAPITAL ACCOUNT *Cr.*

19.. Dec. 31	To Cash . .	£ 3,620	19.. Jan. 1	By Balance . .	£ 3,500
			Dec. 31	,, Realization A/c (½ profit) .	120
		£3,620			£3,620

Dr. ROFF.—CAPITAL ACCOUNT Cr.

19..		£	19..		£
Dec. 31	To Cash	2,620	Jan. 1	By Balance	2,500
			Dec. 31	,, Realization A/c (½ profit)	120
		£2,620			£2,620

Dr. CASH BOOK Cr.

	£			£
To Balance	620	By Sundry Creditors		700
,, Lease	1,650	,, Realization A/c (Expenses of Winding up)		55
,, Fixtures and Fittings	725	,, Capital A/cs—		
,, Sundry Debtors	1,550	Roff	£2,620	
,, Stock	2,450	Smith	3,620	
				6,240
	£6,995			£6,995

QUESTIONS

1. In what three ordinary ways may a partnership be dissolved?

2. Explain what effect the following have upon the duration of a partnership: (*a*) Bankruptcy; (*b*) death; (*c*) charge; (*d*) illegality.

3. In what six cases can a dissolution of partnership be decreed by the Court?

4. What notice must be given to creditors and others when a dissolution or change of partnership takes place?

5. Explain what is meant by the "continuing authority of partners for winding-up purposes."

6. State the legal rule for adjusting losses, and distributing assets, on the dissolution of a partnership, where no agreement to the contrary exists.

7. Submit a formula for dealing in the books with an ordinary dissolution of partnership.

8. When the result of a dissolution is to place a partner's Capital Account temporarily in debit, what is that partner's duty with reference thereto?

9. Explain briefly the *Garner* v. *Murray* decision, and the consequent treatment of accounts in the books.

10. When, on a dissolution of partnership, the assets realize only sufficient to pay the creditors a dividend, how are the accounts in the books closed?

EXERCISE XIII

1. Messrs. Black and White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on 31st December. At the close of the year their Balance Sheet was as follows—

BALANCE SHEET

	£		£
B. Black, Capital A/c	3,050	Lease	1,250
W. White ,,	960	Fixtures	220
Sundry Creditors	480	Sundry Debtors	840
		Stock	2,060
		Cash at Bank	120
	£4,490		£4,490

The Lease and Fixtures were disposed of for £2,700, and the cash duly received. The Book Debts were collected, and realized £752. The stock was sold by auction, and produced £1,340 after payment of commission and expenses. The Sundry Creditors were paid off, £38 being allowed for discount. The expenses of realization amounted to £87.

As book-keeper to the firm, prepare whatever accounts may be necessary to show the result of the realization and the amount receivable by each partner.

(London Chamber of Commerce.)

2. Black and White are equal partners, and their Balance Sheet stands as follows—

Assets: Cash, £400; Debtors, £2,000; Stock, £1,500; Machinery, £2,000.
Liabilities: Creditors, £1,800; Black's Capital, £2,900; White's Capital, £1,200.

They decide to dissolve partnership, and the assets realize the following amounts: Debtors, £1,880; Stock, £1,200; Machinery, £1,800. They receive £100 as Discounts from creditors, and the expenses of realization amount to £230. Prepare Ledger Accounts showing the result of the winding up.

3. Black and White have been in business together for three years ending 31st December, at which date they agree to dissolve partnership. Black takes over the business and agrees to pay White £1,800 for his share of the Goodwill.

Black has drawn out £500 each year and White £650 each year. Black's capital at the start was £3,000 and White's £4,000.

The profits of each year were £1,000, £1,200, and £1,350 respectively. There was no deed of partnership and no arrangement as to interest on Capital. Draft Capital Accounts (in White's show the amount he will receive on going out), Profit and Loss Account in Black and White's books, and Goodwill Account in Black's books.

4. The position of a business firm is as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	2,020	Cash at Bank	1,530
Capital A/cs—		Debtors	2,466
Robinson	3,120	Stock	3,754
Larkin	2,760	Goodwill	2,300
Sparrow	2,150		
	£10,050		£10,050

The partnership is dissolved, the assets realized, and the creditors duly discharged. What will be the share of each partner—

(*a*) If the assets realize their book value, and the partners share profits equally?

(*b*) If the Debtors realize £2,400; Stock, £3,800; Goodwill, £2,500; and partners share profits in the proportions of 5, 4, and 3?

(*c*) If the Debtors realize £2,200; Stock, £3,198; and the partners share profits equally?

5. Hawker and Haigh are in partnership, sharing profits and losses $\frac{4}{5}$ths and $\frac{1}{5}$th respectively. They dissolve partnership, and their Capitals on this date are: Hawker, £3,700; and Haigh, £550. The total liabilities of the firm amount to £6,000; which sum includes £1,500 due to Hawker for Advances, and £250 due to Haigh for Advances. The assets of the firm realize net £7,230. Draw up accounts, showing the final result of the realization and the amounts receivable by the partners respectively.

6. Rogers and Hawley are in partnership, sharing profits and losses $\frac{3}{5}$ths and $\frac{2}{5}$ths respectively. Rogers' Capital is £8,500 and Hawley's is £5,500. The partnership is dissolved and the assets realized with the following results—

	£		£
Debtors	9,020	produced	8,835
Stock	4,650	,,	4,460
Plant and Machinery	3,850	,,	3,700
Lease	2,000	,,	2,000

The expenses of winding up were £110. Out of the Cash at Bank, together with the sum realized by the assets, the Creditors' claims amounting to £7,520 were duly discharged. Draw up the necessary accounts to show the final result of the realization and the amounts received by the partners respectively.

7. Linton, Price, and Westerby dissolve partnership and realize the assets. After realization, the firm's Bank balance stood at £16,144. The Capital Accounts of the partners are: Linton, £5,000; Price, £4,000; Westerby, £3,000. Linton had also advanced £650 to the firm by way of Loan. The Creditors amount to £6,230. The partners share profits and losses in proportion to their Capitals. How should the £16,144 be distributed?

8. Wood, Harrison, and Batty are partners, and divide profits in the proportions of 4, 3, and 2 respectively. The partnership is dissolved, and the state of affairs on date of dissolution is as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	2,755	Cash at Bank	475
Capital A/cs—		Bills Receivable	150
Wood	5,000	Debtors	8,420
Harrison	3,500	Stock	2,360
Batty	2,500	Plant	2,350
	£13,755		£13,755

The assets realize £437 less than their book value. The expenses of winding up are £85. What amounts are payable to the partners respectively?

9. Partridge and Paterson entered into partnership for five years, and shared profits and losses as 2 to 1. Partridge's initial Capital was £3,500 and Paterson's £850. The partnership deed provided that on the termination of the co-partnery the proceeds of realization, after liquidating the Creditors' claims, should be divided according to the partner's shares and interests therein. Accounts have been drawn up annually, and profits, losses, and drawings have been duly adjusted. At the end of the fifth year, Partridge's Capital is £4,000 and Paterson's £450. The balance of Cash remaining after paying all expenses and the Creditors amounts to £2,020. Adjust the partners' Capital Accounts.

10. Finchley and Williams dissolve partnership. The business is sold for £13,660 net, and this amount stands to the credit of the firm's banking account. The Capitals of Finchley and Williams are £5,450 and £1,800 respectively. Finchley has also advanced to the firm £1,500 by way of Loan. The Creditors' claims amount to £4,520. The partners share profits and losses: Finchley, $\frac{2}{3}$rds; and Williams, $\frac{1}{3}$rd. How should the £13,660 be distributed?

11. X, Y, and Z dissolve partnership, and, after realization, the following is the position of affairs—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	464	Cash at Bank . . .	11,550
Capital A/cs—		Z—Capital A/c overdrawn .	434
X	6,000		
Y	5,000		
Profit on Realization . .	520		
	£11,984		£11,984

The partners share profits and losses as follows: X, $\frac{1}{2}$; Y, $\frac{3}{10}$; and Z, $\frac{1}{5}$. Z is quite unable to contribute anything. Draw up the final accounts.

12. The partnership of X, Y, and Z came to an end on 25th April. X's Capital was £6,600; Y's, £4,400; while Z had overdrawn to the extent of £350. Profits and losses were shared in the proportions of 3, 2, and 1. The assets were: Cash at Bank, £425; Bills Receivable, £950; Debtors, £6,730; Plant, £3,500; Stock, £3,500. The liabilities were: Bills Payable, £805; Bank Overdraft, £2,000; Creditors, £1,650. Z is insolvent, but his partners recover £90 from his separate estate. The assets realized the following sums: Bills Receivable, £925; Debtors, £6,500; Plant, £3,000; Stock, £3,300. The expenses of winding up amounted to £185. Draw up the final accounts, and show what each partner will receive.

13. The partnership A, B, and C came to an end on 31st December. The Capital of A was £5,000, and of B £4,000, while C's account was overdrawn to the extent of £500, and he had no outside means. Profits and Losses were shared in the proportions of A $\frac{1}{2}$, B $\frac{1}{3}$, and C $\frac{1}{6}$. Their assets amounted to £8,870, and their liabilities to £370. The business was sold for £10,000. Show the partners' accounts after the sale had been effected. (*Chartered Accountants.*)

14. Hawker, Jocelyn, and Temple are in partnership, sharing profits and losses three-sevenths, two-sevenths, and two-sevenths respectively. The following is the position of affairs after dissolution and realization—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital A/cs—		Cash	900
Hawker	1,800	Temple—Overdrawn . .	200
Jocelyn	Nil	Deficiency of Firm . .	700
	£1,800		£1,800

Temple is insolvent and unable to contribute anything. Prepare final account showing the amount of Cash received by Hawker.

15. The following is the final position after dissolution of a partnership—

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital A/c—		Cash	1,000
Hawkins . . .	1,500	Templar—Overdrawn .	300
		Joyce—Overdrawn . .	200
	£1,500		£1,500

What is the position and procedure if Templar and Joyce are (*a*) solvent and able to contribute their deficits; (*b*) able to contribute part of their overdrafts; (*c*) unable to contribute anything?

16. Brown, Jones, and Robinson were in partnership as Coal Merchants. On 31st December their Balance Sheet showed the following position of affairs—

BALANCE SHEET

Liabilities		£	*Assets*	£
Sundry Creditors		3,000	Cash in hand and at Bank	1,400
Loan on Mortgage		400	Sundry Debtors	4,000
Brown—Capital A/c	£2,500		Stock	1,500
Drawings A/c	1,000		Horses, Carts. etc.	500
		3,500	Freehold Property	1,000
Jones—Capital A/c	£1,500		Robinson—Overdrawn	500
Drawings A/c	500			
		2,000		
		£8,900		£8,900

They shared profits and losses in the proportions of Brown one-half, Jones one-third, Robinson one-sixth. It was decided to dissolve the partnership as at the date of the above Balance Sheet. The Freehold Property realized £1,300. Bad Debts and Discounts allowed amounted to £500. The Stock realized £1,200, and the Horses, Carts, etc., £300. The mortgage on the property was duly paid off. The Creditors were also paid, less discounts amounting to £100. The costs of realization amounted to £300. After the assets had been realized and all the liabilities discharged, Robinson became bankrupt, and a claim was made against his estate for the amount due from him to the firm on the dissolution, and a dividend thereon at the rate of 6s. 8d. in the £ was received. Write up the Realization Account; the Cash Account, and the Capital and Drawing Accounts of the partners, and close the books of the firm. (*Chartered Accountants.*)

17. Morgan and Newell are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors	12,000	Cash	900
Capital A/cs—		Sundry Debtors	4,082
Morgan	4,720	Stock	4,320
Newell	2,462	Fixtures and Fittings	3,080
		Goodwill	6,800
	£19,182		£19,182

The assets, other than Cash, realize £8,600, and the expenses of winding up are £300. Close the books of the firm. It is assumed that nothing is forthcoming from the private estates of the partners.

18. Wyatt and Dawson are equal partners in a retail concern. They decide to retire, and sell their business on 31st December, the position of affairs on this date being as follows—

BALANCE SHEET

Liabilities	£	*Assets*	£
Sundry Creditors	900	Cash at Bank	1,000
Capital A/cs—		Sundry Debtors	1,900
Wyatt	6,000	Stock	5,000
Dawson	4,000	Fixtures and Fittings	1,000
		Lease	2,000
	£10,900		£10,900

The Lease was sold for £3,000, Fixtures for £1,100, and Stock for £4,600. The Book Debts realized only £1,800, £60 being allowed for discount. The Creditors were paid £860 in full settlement. The expenses of winding up were £64. Close the books of the firm, showing the result of the realization, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

19. Johnson, Moore, Elliott, and Graham are in partnership. After the annual accounts have been prepared and signed as at 31st December, it is discovered that interest on Capital at 5 per cent per annum has been inadvertently omitted. Instead of re-opening the books and altering the Balance Sheet, it is decided to make an adjusting entry at the beginning of the new year. The Capitals of the partners are: Johnson, £8,500; Moore, £5,500; Elliott, £5,500; Graham, £4,500; and profits are divisible thus: Johnson, $\frac{1}{3}$rd; Moore, $\frac{1}{4}$th; Elliott, $\frac{1}{4}$th; Graham, $\frac{1}{6}$th. Give the one Journal entry that would be required to adjust the above matter.

20. X and Y are in partnership. X has a capital of £8,000 and Y has a capital of £5,000. They agree to admit Z as a partner with £4,600, £1,300 of which is to be considered as payment for a share of the Goodwill, and to be credited to X and Y in proportion to their Capitals. How should the profits be divided in order that each partner shall receive a share proportionate to his Capital in the concern?

21. Messrs. Farmer and Right (who share profits $\frac{3}{5}$ths and $\frac{2}{5}$ths respectively) had the following balances in their books on 31st December—

	£	s.	d.		£	s.	d.
Acceptances to Creditors	997	12	–	Plant and Machinery	2,950	–	–
Salaries, Travellers, etc.	780	–	–	Rent, Rates, Taxes, etc.	566	–	–
Discounts received	276	–	–	Bad Debts	135	–	–
Cash at Bank	929	10	6	Carriage	279	–	–
,, in hand	30	10	6	Sundry Expenses	379	–	–
,, Creditor	2,000	–	–	Manufacturing Wages	1,897	–	–
Bad Debts Provision,				F. Farmer—Drawing A/c	420	10	6
1st January	129	–	–	R. Right— ,, ,,	320	10	6
Suspense A/c (*Dr.*				Sales	11,680	–	–
balance)	55	–	–	Debtors' Acceptances	1,268	10	–
F. Farmer—Capital				Discounts Allowed	426	–	–
A/c	4,620	–	–	Legal Expenses	35	–	–
R. Right—Capital A/c	3,780	–	–	Returns Outwards	816	–	–
Purchases	5,866	–	–	Bought Ledger Balances	1,954	–	–
Sales Ledger Balances	3,290	–	–	Returns Inwards	2,430	–	–
Stock, 1st January	4,195	–	–				

Prepare Trading and Profit and Loss Accounts and Balance Sheet as at 31st December, after making the following adjustments—

Stock, 31st December, £5,692.
10 per cent Depreciation on Plant.
£70 Interest due to Cash Creditor.
Bad Debts Provision, 5 per cent Debtors.
Provisions for Discounts on Debtors and Creditors, $3\frac{3}{4}$ per cent and $2\frac{1}{2}$ per cent respectively.
Interest on Capital at 5 per cent.
£10 Fire Insurance (Sundry Expenses) to be carried forward.

Closing entries through the Journal are required, and also the percentages of gross and net profit on the turnover.

22. Wm. Smith and Joseph Thompson trade in partnership as Metal Merchants under the style of Smith, Thompson & Co., William Smith's capital being £15,000, and Joseph Thompson's £12,000.

The Ledger shows the following Balances—

	£	s.	d.		£	s.	d.
Office Furniture and Fittings	473	8	2	Purchases of Copper	40,170	12	–
Rent	200	–	–	" Tin	8,426	18	9
Sales of Copper	37,445	7	1	" Iron	86,983	7	2
" Tin	9,476	3	8	" Pig Iron	75,536	14	1
" Iron	87,753	11	6	Stocks on hand at 1st Jan—			
" Pig Iron	76,942	8	–	Copper	12,008	–	3
Discounting Bills	829	7	3	Tin	875	11	4
Bills Receivable	9,814	15	–	Iron	3,026	14	–
Discounts Allowed *less* Discounts received	4,423	9	11	Office and Warehouse Expenses	574	19	9
Cash in hand	23	2	11	Carriage	1,463	13	7
Sundry Debtors	7,618	4	10	Wm. Smith, Drawings	618	4	2
Sundry Creditors	6,028	7	10	Joseph Thompson, Drawings	429	8	6
Salaries of Office Staff	316	4	–	Midland Bank *Cr.*	2,941	7	5
Warehouse Wages	226	–	–	Bills Payable	6,784	2	6
Bank Interest and Commission	332	12	4				

The Stocks on hand at 31st December were—

	£	s.	d.
Copper	22,111	14	2
Tin	617	18	10
Iron	6,513	4	1

From the foregoing make out Profit and Loss Account and Balance Sheet, charging 5 per cent Interest on the Partners' Capital, and crediting Partners with £500 each, Salary. (*Union of Educational Institutions.*)

23. Hardy and Ivor are in partnership, sharing profits and losses as to two-thirds and one-third respectively. At 31st August, 19.., their position was—

BALANCE SHEET

Liabilities	£	*Assets*	£
Creditors	3,459	Cash	200
Capital A/cs—		Debtors	215
Hardy	708	Stock	860
Ivor	408	Fixtures	1,900
		Motor Vehicles	1,400
	£4,575		£4,575

Dissolution takes place, the assets (other than cash) realize £2,040, expenses of realization being £39. Neither partner has any other assets. Close the books of the firm, indicating the composition paid to the Creditors.

(*Institute of Book-keepers.*)

24. In 1932 A set up in business as a sole trader.

On 1st January, 1936, B joined him as a partner, B taking one-third of the profits and paying £1,500 in cash for his share of the goodwill.

On 1st January, 1940, C joined the firm as an additional partner, profits thereafter being divided between A, B, and C in the proportions 5, 4, and 3. Immediately before C's admission, a goodwill account for £6,000 was raised in the books and C paid no separate sum in cash for his share of the goodwill.

From 1940 onwards the goodwill was written down periodically and at the end of 1948 stood in the books at £2,000. As on 31st December, 1948, the business was sold and the amount realized for the goodwill was £5,400.

Draw up a statement showing the net amount gained or lost by each of the partners in respect of goodwill during the whole period from the commencement of the business to the final date of sale.

(*London Chamber of Commerce.*)

25. X and Y are trading in partnership, sharing profits equally; interest on capital is allowed at 5 per cent. The books are kept on a "single entry" basis, and statements drawn up on 31st December, 1947 and 1948, respectively provide the following information—

Assets	1947	1948
	£	£
Fixtures and Fittings	350	420
Stock	4,369	4,670
Debtors	1,127	1,043
Cash	630	518
	£6,476	£6,651

Liabilities	1947	1948
	£	£
Capital A/cs—		
X	4,000	4,000
Y	1,800	2,000
Current A/cs—		
X	318	?
Y	27	?
Sundry Creditors	331	347
	£6,476	£

Day Books are kept and these show that the net purchases during the year 1948 amounted to £9,130 and sales to £12,337. Examination of the cash book shows that X's drawings amounted to £960 and Y's to £720, and that the £200 additional capital was paid in by Y on 30th June.

Ascertain the expenses for the year, the net profit (before charging partners' interest) and the balances of the Current Accounts as on 31st December, 1948.

(*London Chamber of Commerce.*)

26. A Partnership consists of three partners: T. Fisher, D. Green, and H. Gray. The capitals of Fisher and Green on 1st January were £3,650 each. Gray had overdrawn and had £250 to his debit. On 30th June the profits for the half-year

to date amounted to £1,256, and were divisible equally. The three partners had drawn £250 each; Gray had also drawn £65 extra on 31st March and £40 on 30th June. Draw up the Profit and Loss and Capital Accounts, allowing interest at 5 per cent per annum on Capitals and charging interest at the same rate on excess Drawings.

27. Cowan, Bennett & Co. have made profits during the year of £2,650. The partnership consists of C. Cowan and B. Bennett, who are equal partners. On 1st January, Cowan's Capital was £5,450, and Bennett's £4,520. Bennett also brought in £1,000 on 31st March. Interest is to be allowed on Capital at 5 per cent per annum, and Bennett is entitled to a management salary of £300. Cowan is entitled to £500 per annum for Rent of the business premises, which are his own property. Draw up the Profit and Loss and Capital Accounts.

28. A. Aplin and C. Charles are in partnership, sharing profits and losses three-fifths and two-fifths respectively. They agree to admit P. Paton as a partner with a fifth share on condition that he brings in £1,500 Capital, and that the old partners are credited with their respective shares of the Goodwill estimated at £2,000. Aplin and Charles, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

29. B. Blackburn and P. Pinner are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit M. Marsden as a partner on condition that he brings into the business £1,800, £240 of which is to be regarded as premium for admission, but is to be paid out to the partners in the proportions in which they are entitled to share it. Make the necessary entries in the books.

30. G. Gardner and C. Campbell are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit R. Reid as a partner on condition that he brings in £1,800, £240 of which is to be regarded as premium for Goodwill; the money, however, is to remain in the business. Make the necessary entries in the books.

CHAPTER XIV

BRANCH ACCOUNTS

Divisions of the Subject. Branch Accounts are generally divided into three main classes—

1. Where the branch book-keeping is done at the Head Office, the branch supplying the necessary information, or, as it is termed, making returns.

2. Where the branch keeps its own books, and at balancing time forwards a copy of its trial balance for incorporation in the Head Office books.

3. Foreign branches.

Each of the first two classes is subdivided according as the branch is retail or wholesale. Moreover, the kind of business itself exercises a not unimportant influence upon the method of book-keeping. In some trades the stock is of a perishable nature, in others it remains good indefinitely; obviously, therefore, it cannot be dealt with in the same way in both cases.

Transfer of Stock to Branches. When a branch is opened and stock is transferred to it from the head establishment, this transfer should not be treated as a sale; for it is not a proper sale, but merely an issue of goods. The value of the goods should be debited to a Branch Account, and credited to a special account entitled "Goods Sent to Branches." At balancing time this latter account is closed by transfer to Trading Account.

Example 1. On 1st January a branch establishment was opened, and stock value £1,000 was transferred thereto. Show the Journal and Ledger entries recording this transaction.

JOURNAL

		Dr.	*Cr.*
19..		£	£
Jan. 1	Branch A/c	1,000	
	To Goods sent to Branches		1,000

LEDGER

BRANCH ACCOUNT

Dr. | | | | | *Cr.*

19..		£			£
Jan. 1	To Goods to Branches .	1,000			

15—(B.1405)

Dr. GOODS SENT TO BRANCHES Cr.

19..		£	19..		£
Dec. 31	To Trading A/c .	1,000	Jan. 1	By Branch A/c .	1,000

Dr. TRADING ACCOUNT Cr.

		£	19..		£
			Dec. 31	By Sales (say) .	15,460
			,, 31	Goods to Branches	1,000

The goods sent to the branches thus appear in the Trading Account separately from the sales, instead of being merged in them. Supposing such issues of goods had been entered in the Day Book like ordinary sales, even though they had been charged to the branch at actual cost, i.e. no credit taken for any profit, yet the turnover shown by the books would be entirely fictitious, and therefore useless for the purposes of comparison or as a basis for financial calculations.

Branch Supplies Book. Where there are several branches, each supplied with goods from the head establishment, a tabular "Goods Sent to Branches" or "Branch Supplies" book is employed. The totals of the columns are debited periodically to the separate Branch Accounts and credited to a "Goods Sent to Branches" Account. The following is a facsimile of the ruling—

Date	Particulars	Fo.	Total	Branch A	Branch B	Branch C

How Goods are Invoiced to the Branch. When branches are opened, the goods supplied to the branches may be charged out to them (according to the nature of the business)—

(1) At cost.
(2) At a fixed percentage on cost.
(3) At selling price.

In the "multiple shop" system, that is, where there is one head establishment with numerous selling depots, the goods are charged to the branches at selling price. This procedure establishes a definite check upon such branches. What a branch cannot produce in

money, it must have in stock (taken at selling price); and frequent stock-taking will reveal whether there is any leakage or not.

Where goods are charged to the branches at a price other than actual cost, i.e. at a percentage on cost, or at selling price, the Branch Supplies Book would be ruled with duplicate columns for each branch. One column would record the cost price, for the purpose of the Trading Account; the other column would contain the invoice price, so as to facilitate the debiting of the respective branches therewith. The following is a specimen of such ruling—

Date	Particulars	Total		Branch A		Branch B	
		Cost Price	Invoice Price	Cost Price	Invoice Price	Cost Price	Invoice Price

Branch Receipts and Payments. The money received by the branch for the Cash Sales, and on Ledger Accounts where goods are also sold on credit, is either paid in daily at some local bank to the credit of the Head Office Account, or else remitted every day direct to Head Office. The expenses of the branch, such as Rent, Rates and Taxes, Wages, Petty Charges, etc., are paid, in some cases, by cheque direct from the Head Office, and, in other cases, by means of the imprest system; whatever the branch spends for such purposes out of the original sum advanced to it, is repaid to the branch by the Head Office. In a few instances, however, the wages and expenses are paid out of the cash takings, and only the balance remitted to the head establishment. The Cash Book kept by the Head Office generally contains extra columns on each side to record the receipts from, and payments to, the various branches, the totals of these columns being posted periodically to the Branch Accounts. The branch itself is provided with a small Cash Book for the purpose of recording its daily takings and any petty disbursements.

Branch Returns. In most cases, the branch is called upon by the Head Office to make what are termed "Returns." Where the branch sales are exclusively cash, the branch would simply make returns of—

(1) Its daily takings, with a departmental analysis of such cash sales if necessary;

(2) Its wages and other expenses, likewise dissected if desired;

(3) Any commission that had accrued to the assistants or manager; and

(4) Such statistical information respecting its present stock and future requirements as the Head Office may direct.

But where the sales are partly cash and partly credit, additional particulars have to be furnished, i.e. in connexion with the debtors—

(5) What accounts have been settled since the last return;

(6) The cash received, the discounts, returns, and allowances in connexion with such settlements;

(7) What debts have become doubtful or bad;

(8) Particulars of the credit sales since the last return;

(9) The debtors outstanding at the date of the current return.

The branch itself usually keeps a small Ledger for the Debtors' Accounts. From the information thus furnished by each branch, the Head Office is enabled to write up the various Branch Accounts.

I. (a) RETAIL BRANCHES

Example 2. From the following particulars prepare the Branch Account as it would appear in the Head Office books. The branch sales are for cash only, and the goods sent to the branch have been invoiced at cost price—

	£	s.	d.
Goods from Head Office	5,360	11	2
Returns to " "	47	7	11
Rates, Taxes, and Insurance paid	75	12	5
Wages paid	365	4	8
Cash remitted to Head Office	6,650	14	8
Stock, 1st Jan.	750	10	6
Rent paid	130	10	6
Stock, 31st Dec.	790	16	6
Sundry Expenses paid	80	13	9

Dr. BRANCH ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance	750	10	6	Dec. 31	By Cash	6,650	14	8
Dec. 31	" Goods from Head Office	5,360	11	2	" 31	" Returns to Head Office	47	7	11
" 31	" Cash (Wages)	365	4	8	" 31	" Stock c/d	790	16	6
" 31	" " (Rent)	130	10	6					
" 31	" " (Rates, Taxes, and Insurance)	75	12	5					
" 31	" Cash (Sundry Expenses)	80	13	9					
31	" Profit and Loss A/c (profit)	725	16	1					
	£	7,488	19	1		£	7,488	19	1
19.. Jan. 1	To Balance b/d	790	16	6					

Percentage Added to Cost Price. Whenever goods are invoiced to the branch at a percentage on cost price, this percentage must be taken into account at balancing time, that is to say, the branch purchases, and opening and closing stocks, must be reduced to cost in order to arrive at the correct profit. In an office, the cost can be easily ascertained by reference to the Cost Price column in the Branch Supplies Book; but, in exercises and examination work, the cost must be found by arithmetical calculation. The student must remember that, if a percentage has been added to the cost of goods, the *same* percentage taken off will not reduce the goods to their original value. For example, suppose that £600 worth of goods has been sent to a branch with $33\frac{1}{3}$ per cent added to the cost; the goods would then have been invoiced to the branch at £800. Now, $33\frac{1}{3}$ per cent taken off £800 will not reduce it to its original figure of £600; the following reasoning proves this: On every £$133\frac{1}{3}$, £$33\frac{1}{3}$ has been added; the increase is, therefore, $\frac{33\frac{1}{3}}{133\frac{1}{3}}$ or $\frac{1}{4}$th; and one-fourth must, consequently, be taken off in order to bring the amount down to cost.

Whilst this has so often proved to be a stumbling block in examinations, no difficulty should be experienced if the following table is borne in mind.

Where 1 (i.e. 100%)		has been added,	deduct		$\frac{1}{2}$
,,	$\frac{1}{2}$	,,	,,	,,	$\frac{1}{3}$
,,	$\frac{1}{3}$	,,	,,	,,	$\frac{1}{4}$
,,	$\frac{1}{4}$	,,	,,	,,	$\frac{1}{5}$
,,	$\frac{1}{5}$	,,	,,	,,	$\frac{1}{6}$
,,	$\frac{1}{6}$	,,	,,	,,	$\frac{1}{7}$

and so on.

In the following example (3), the goods received from Head Office, and also the stocks at the commencement and end of the trading period, have been decreased by one-fourth before being dealt with.

Example 3. From the particulars furnished hereunder, write up the Branch Account in the Head Office books. The branch sales are exclusively cash, and the goods sent to the branch have been invoiced at $33\frac{1}{3}$ per cent on cost—

	£	s.	d.
Goods sent to Branch *less* Returns	7,200	15	4
Wages and Salaries paid	380	12	9
Cash remitted by Branch	7,068	15	6
Stock, 1st Jan.	900	12	8
Rates, Taxes, and Insurance paid	85	3	11
Rent paid	150	10	6
Stock, 31st Dec.	1,020	18	4
Sundry Expenses paid	42	11	7

BRANCH ACCOUNT

Dr. | | | | | *Cr.*

		£ s. d.			£ s. d.
19..			19..		
Jan. 1	To Balance (Stock)	675 9 6	Dec. 31	By Cash	7,068 15 6
Dec. 31	,, Goods from Head Office	5,400 11 6	,, 31	,, Stock c/d	765 13 9
,, 31	,, Cash (Rates, Taxes, and Insurance)	85 3 11			
,, 31	,, Wages and Salaries	380 12 9			
,, 31	,, Rent	150 10 6			
,, 31	,, Sundry Expenses	42 11 7			
,, 31	,, Profit and Loss A/c (net profit)	1,099 9 6			
	£	7,834 9 3		£	7,834 9 3
19..					
Jan. 1	To Balance (Stock) b/d	765 13 9			

Branch Accounts with Double Money Columns. Where the Ledger accounts contain double money columns, one to record the invoice price, and the other the cost price, such columns possess the great advantage of showing clearly, and at a glance, both the nominal and the actual gross profits. The percentage added to the cost price, when invoicing goods to the branch, is usually the estimated or expected rate of gross profit on cost. And when the Branch Trading Account is made up at the actual invoice figures, both sides should, theoretically, agree. A balance, if any, indicates that more, or less, than the anticipated gross profit is being made. In the following example, which is a re-working of Example 3, but with double money columns, the actual gross profit is short of what it ought to be by the sum of £11 14s. 2d. This fact would, in practice, lead to a search for a probable error, and possibly to an investigation as to whether the figures relating to the goods or money were being manipulated. (See page 441.)

Branch Adjustment Account. Instead of employing double money columns to bring both sets of figures into account, the goods sent to the branch are sometimes posted to the Ledger at the invoice price only. It then becomes necessary to open a "Branch Adjustment Account" in addition to a "Goods Sent to Branches Account," if it is desired by means of proper double entry to ascertain the actual trading profit. This method, applied to the foregoing example (3), will provide the following Ledger accounts—

BRANCH ACCOUNT

Dr. | | | | | *Cr.*

			£ s. d.				£ s. d.
19..				19..			
Jan. 1	To Balance (Stock)	*a*	900 12 8	Jan.-Dec.	By Cash remitted		7,068 15 6
Jan.-Dec.	,, Purchases from Head Office	*d*	7,200 15 4	Dec 31	,, Stock c/d	*b*	1,020 18 4
				,, 31	,, Branch Adjustment A/c (apparent loss)	*c*	11 14 2
		£	8,101 8 –			£	8,101 8 –
19..							
Jan. 1	To Balance (Stock) b/d	*e*	1,020 18 4				

BRANCH ACCOUNT

Dr. | *Cr.*

Date		Particulars	Invoice Price £ s. d.	£ s. d.	Date		Particulars	Invoice Price £ s. d.	£ s. d.
19..					19..				
Jan.	1	To Balance (Stock) .	900 12 8	675 9 6	Jan.-Dec.		By Cash . . .	7,068 15 6	7,068 15 6
Jan.-Dec.		,, Goods from Head Office . . .	7,200 15 4	5,400 11 6	Dec.	31	,, Stock c/d . .	1,020 18 4	765 13 9
Dec.	31	,, Balance (gross profit)		1,758 8 3	,,	31	,, Balance (apparent loss) . . .	11 14 2	
			£8,101 8 –	£7,834 9 3				£8,101 8 –	£7,834 9 3
Dec.	31	To Rates, Taxes, and Insurance . .		85 3 11	Dec.	31	By Gross Profit . .		1,758 8 3
,,	31	,, Wages and Salaries .		380 12 9					
,,	31	,, Rent . . .		150 10 6					
,,	31	,, Sundry Expenses .		42 11 7					
,,	31	,, Profit and Loss A/c (net profit) . .		1,099 9 6					
				£1,758 8 3					£1,758 8 3
19..									
Jan.	1	To Balance (Stock) .	1,020 18 4	765 13 9					

Dr. BRANCH ADJUSTMENT ACCOUNT Cr.

19..		£ s. d.	19..		£ s. d.
Dec. 31	To Balance (% on Stock) c/d *b*	255 4 7	Jan. 1	By Balance (% on Stock) . *a*	225 3 2
,, 31	,, Branch A/c (apparent loss) . *c*	11 14 2	Jan.-Dec.	,, Goods to Branches A/c (% on Goods) *d*	1,800 3 10
,, 31	,, Branch Profit and Loss A/c (gross profit) . .	1,758 8 3			
	£	2,025 7 –		£	2,025 7 –
			19.. Jan. 1	By Balance b/d . *e*	255 4 7

Dr. GOODS SENT TO BRANCHES ACCOUNT Cr.

19..		£ s. d.	19..		£ s. d.
Dec. 31	To Branch Adjustment A/c . . *d*	1,800 3 10	Jan.-Dec.	By Branch A/c . .	7,200 15 4
,, 31	,, Transfer to Trading A/c (Goods at cost) . .	5,400 11 6			
	£	7,200 15 4		£	7,200 15 4

The credit balance of £255 4s. 7d. in the Branch Adjustment Account would be set-off against the debit balance of £1,020 18s. 4d. in the Branch Account, enabling the branch stock to be entered in the Stock Account and in the Balance Sheet at cost, namely, £765 13s. 9d. The Branch Adjustment Account shows a gross profit of £1,758 8s. 3d., which amount would be taken to a Branch Profit and Loss Account. Against this gross profit would be debited the total of the branch expenses, viz. £658 18s. 9d. This would leave a net profit of £1,099 9s. 6d. to be carried to the general Profit and Loss Account—the same result as by the previous method.

QUESTIONS

1. How are Branch Accounts divided? What subdivisions are there?
2. What entries are made when a Branch is opened and goods transferred thereto from stock? Is it correct to treat such a transfer as a sale?
3. Submit rulings of a "Branch Supplies Book," and explain its use.
4. In what three ways are goods invoiced to branches?
5. What object is sought by invoicing goods to branches at selling price? Explain the term "multiple shop system."
6. Explain the method of dealing with Branch receipts and payments.
7. Explain the term "Branch Returns." What do they comprise in the case of a branch doing (1) only a cash business, (2) both cash and credit business?
8. How may the invoice price be reduced to cost when a known percentage has been added? Give examples.
9. Explain the object of double money columns in the Ledger records of Branch Accounts.
10. Explain and illustrate the use of a Branch Adjustment Account.

Credit Sales by Branches. These are treated in different ways. Where the transactions are not very large or numerous, everything is passed through one Branch Account, the debtors being treated in the same way as stock at the commencement and close of the trading period. In some cases, however, a separate "Branch Debtors Account" is opened in addition to a "Branch Account." Where the turnover is sufficiently large to warrant it, the Branch Account itself is often divided into two parts, a "Branch Goods Account" and a "Branch Expenses Account," in order to show both gross and net profits.

Example 4. From the particulars given below, draw up the Branch Account or Accounts in the Head Office books. The goods sent to the branch have been invoiced at cost, and the branch makes both cash and credit sales—

	£	s.	d.
Goods from Head Office	2,540	12	9
Returns to ,, ,,	40	3	7
Stock, 1st Jan.	750	11	8
Cash Sales	1,675	19	2
Six Months' Credit Sales to 30th June	2,995	10	11
Allowances to Customers	16	11	8
Discounts allowed to Customers	120	18	5
Bad Debts	29	3	11
Rent, Rates, and Taxes	90	7	8
Returns from Customers	28	12	4
Wages and Salaries	297	15	6
Debtors, 1st Jan.	1,310	12	5
Stock, 30th June	695	6	6
Sundry Expenses	65	10	9
Cash received on Ledger A/cs	2,459	10	6
Debtors, 30th June	1,651	6	6

The simplest form would be the following, which is constructed on a *cash* basis, the debtors being treated as a form of stock—

Dr. BRANCH ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance— Stock £750 11 8; Debtors 1,310 12 5	2,061	4	1	Jan.-June	By Cash— Ledger A/cs	2,459	10	6
						Cash Sales	1,675	19	2
June 30	,, Goods from Head Office	2,540	12	9	,,	,, Returns to Head Office	40	3	7
,, 30	,, Rent, Rates, and Taxes	90	7	8	June 30	,, Balance c/d— Stock £695 6 6; Debtors 1,651 6 6	2,346	13	–
,, 30	,, Wages and Salaries	297	15	6					
,, 30	,, Sundry Expenses	65	10	9					
,, 30	,, Profit and Loss A/c (net profit)	1,466	15	6					
	£	6,522	6	3		£	6,522	6	3
July 1	To Balance b/d	2,346	13	–					

A more elaborate form would be as follows—

Dr. BRANCH GOODS ACCOUNT Cr.

Date	Particulars	£ s. d.	Date	Particulars	£ s. d.
19..			19..		
Jan. 1	To Balance . .	750 11 8	June 30	By Cash Sales . .	1,675 19 2
Jan.-June	,, Goods from Head Office . .	2,540 12 9	,, 30	,, Credit Sales . .	2,995 10 11
,,	,, Returns Inwards .	28 12 4	,, 30	,, Returns to Head Office . .	40 3 7
,,	,, Allowances . .	16 11 8	,, 30	,, Stock c/d . .	695 6 6
,,	,, Branch Profit and Loss A/c (gross profit) . .	2,070 11 9		closing	
	£	5,407 - 2		£	5,407 - 2
July 1	To Balance (Stock) b/d	695 6 6			

Dr. BRANCH EXPENSES ACCOUNT Cr.

Date	Particulars	£ s. d.	Date	Particulars	£ s. d.
19..			19..		
June 30	To Rent, Rates, etc. .	90 7 8	June 30	By Transfer to Branch Profit and Loss A/c . . .	603 16 3
,, 30	,, Wages and Salaries .	297 15 6			
,, 30	,, Sundry Expenses .	65 10 9			
,, 30	,, Bad Debts . .	29 3 11			
,, 30	,, Discounts . .	120 18 5			
		£603 16 3			£603 16 3

Dr. BRANCH DEBTORS ACCOUNT Cr.

Date	Particulars	£ s. d.	Date	Particulars	£ s. d.
19..			19..		
Jan. 1	To Balance . .	1,310 12 5	Jan.-June	By Cash . . .	2,459 10 6
Jan.-June	,, Credit Sales . .	2,995 10 11	,,	,, Discount . .	120 18 5
			,,	,, Returns Inwards .	28 12 4
			,,	,, Allowances . .	16 11 8
			,,	,, Bad Debts . .	29 3 11
			,,	,, Balance c/d . .	1,651 6 6
	£	4,306 3 4		£	4,306 3 4
July 1	To Balance b/d . .	1,651 6 6			

Dr. BRANCH PROFIT AND LOSS ACCOUNT Cr.

Date	Particulars	£ s. d.	Date	Particulars	£ s. d.
19..			19..		
June 30	To Branch Expenses A/c	603 16 3	June 30	By Branch Goods A/c (gross profit) .	2,070 11 9
,, 30	,, Head Office Profit and Loss A/c (net profit) . .	1,466 15 6			
	£	2,070 11 9		£	2,070 11 9

Depreciation of Assets. Where a branch possesses fixed assets such as furniture, fixtures, and fittings, the depreciation is often dealt with in the Head Office Depreciation Account only, as assumed in the previous examples. In some cases, however, it is charged against each particular branch, as in the following examples.

Example 5. From the undermentioned particulars construct the Branch Accounts as they would appear in the Head Office books. The branches are charged with the goods at selling price, the sales being exclusively cash. The rate of gross profit is 25 per cent *on selling price.*

	Branch A. £	s.	d.	Branch B. £	s.	d.
Goods from Head Office	10,145	11	8	10,216	12	4
Returns to ,, ,, ...	48	2	4	46	10	8
Sales by Branch	9,626	11	4	9,818	–	8
Stock, 1st Jan.	1,275	10	4	1,684	11	4
,, 31st Dec.	1,726	17	8	1,986	15	4
Allowances off Selling Price	29	2	–	39	14	4
Sundry Expenses	95	11	6	120	19	5
Salaries and Wages	237	3	8	316	11	9
Depreciation of Furniture and Fixtures . .	22	13	7	24	18	6
Rent, Rates, and Taxes	260	10	2	284	12	8
Excess in Stock at close	9	11	4			
Shortage in ,, ,, ...				10	2	8

NOTES ON EXAMPLE. The selling price of goods is often subject to variation, according to the quantity taken. For instance, articles retailed at 1d. each may be sold at 9d. a dozen and 7s. 6d. a gross, and so on. A record is kept of these allowances off selling price, and the total is written off at the end of the period. Again, it occasionally happens that at stock-taking the stock is different from what it ought to be, being sometimes more, and sometimes less. These discrepancies must, of course, be adjusted at balancing time.

Dr. BRANCH "A" EXPENSES ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Salaries and Wages .	237	3	8	Dec. 31	By Transfer to Branch Profit and Loss A/c	615	18	11
,, 31	,, Rent, Rates and Taxes . .	260	10	2					
,, 31	,, Sundry Expenses .	95	11	6					
,, 31	,, Depreciation of Fixtures, etc. . .	22	13	7					
		£615	18	11			£615	18	11

Dr. BRANCH "B" EXPENSES ACCOUNT *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Salaries and Wages .	316	11	9	Dec. 31	By Transfer to Branch Profit and Loss A/c	747	2	4
,, 31	,, Rent, Rates, and Taxes . .	284	12	8					
,, 31	,, Sundry Expenses .	120	19	5					
,, 31	,, Depreciation of Fixtures . . .	24	18	6					
		£747	2	4			£747	2	4

Dr. GOODS TO BRANCHES *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Jan.-Dec.	To Branch "A" Returns . .	36	1	9	Jan.-Dec.	By Branch "A" .	7,609	3	9
,,	,, Branch "B" Returns . .	34	18	–	,,	,, ,, "B" .	7,662	9	3
Dec. 31	,, Trading A/c .	15,200	13	3					
	£	15,271	13	–		£	15,271	13	–

Dr. BRANCH PROFIT AND LOSS ACCOUNT *Cr.*

		Branch "A."			Branch "B."					Branch "A."			Branch "B."		
19..		£	s.	d.	£	s.	d.	19..		£	s.	d.	£	s.	d.
Dec. 31	To Branch Expenses	615	18	11	747	2	4	Dec 31	By Branch A/cs (Gross Profit) .	2,391	19	10	2,417	2	5
,, 31	,, Head Office Profit and Loss A/c (Net Profit) .	1,776	–	11	1,670	–	1								
	£	2,391	19	10	2,417	2	5		£	2,391	19	10	2,417	2	5

Dr. BRANCH "A" ACCOUNT **Cr.**

Date		Invoice Price £ s. d.	£ s. d.	Date		Invoice Price £ s. d.	£ s. d.
19..				19..			
Jan. 1	To Balance (Stock)	1,275 10 4	956 12 9	Jan.-Dec.	By Cash	9,626 11 4	9,626 11 4
Jan.-Dec.	,, Goods to Branches	10,145 11 8	7,609 3 9	,,	,, Returns to Head Office	48 2 4	36 1 9
Dec. 31	,, Excess in Stock	9 11 4		,,	,, Allowances off Selling Prices	29 2 –	
,, 31	,, Branch Profit and Loss A/c (gross profit)		2,391 19 10	Dec. 31	,, Balance (Stock) c/d	1,726 17 8	1,295 3 3
	£	11,430 13 4	10,957 16 4		£	11,430 13 4	10,957 16 4
19..							
Jan. 1	To Balance (Stock) b/d	1,726 17 8	1,295 3 3				

Dr. BRANCH "B" ACCOUNT **Cr.**

Date		Invoice Price £ s. d.	£ s. d.	Date		Invoice Price £ s. d.	£ s. d.
19..				19..			
Jan. 1	To Balance (Stock)	1,684 11 4	1,263 8 6	Dec. 31	By Cash	9,818 – 8	9,818 – 8
Jan.-Dec.	,, Goods to Branches	10,216 12 4	7,662 9 3	,, 31	,, Returns to Head Office	46 10 8	34 18 –
,,	,, Branch Profit and Loss A/c (gross profit)		2,417 2 5	,, 31	,, Allowances off Selling Price	39 14 4	
				,, 31	,, Shortage in Stock	10 2 8	
				,, 31	,, Balance (Stock) c/d	1,986 15 4	1,490 1 6
	£	11,901 3 8	11,343 – 2		£	11,901 3 8	11,343 – 2
19..							
Jan. 1	To Balance (Stock) b/d	1,986 15 4	1,490 1 6				

Monthly Stock Accounts. Where goods are charged out to branches at selling price, or at a fixed percentage on cost, there is, of course, an adequate check on the stock; but where goods are invoiced at cost, there is no such check. In order to provide one, Approximate (or Estimated) Stock Accounts are prepared monthly, and recorded in a book kept specially for this purpose. These accounts enable the proprietor or directors to know at any time the value, approximately, of the stock on hand without going through the long and tedious process of stocktaking. Where the rate of gross profit is a fixed percentage of the selling price, a fairly accurate result may be obtained by adding to the stock at the commencement the subsequent net purchases, and deducting from the total the net sales for the same period, after reducing them by the said percentage of gross profit. Below is a specimen of one of these accounts.

Dr. APPROXIMATE STOCK ACCOUNT *Cr.*

19..		£	19..		£
Jan. 1	To Stock . .	2,850	Jan. 31	By Sales (less Returns) . .	1,060
„ 31	„ Purchases (less Returns) .	550		Less (say) 25%	265
					795
			„ 31	„ Balance (estimated Stock) c/d . .	2,605
		£3,400			£3,400
Feb. 1	To Balance b/d .	2,605			

The illustrations so far used in this chapter have all been simple but, as suggested at the commencement, the type of business or other special circumstances may necessitate or permit of variations, either in the manner of dealing with cash and stock or the selling of goods on credit.

It is obviously impossible and unnecessary in this volume to deal with these matters fully, but the following points should be considered.

Control of Cash. It has been stated that cash takings, either in full or after the deduction of certain outgoings, are paid into the bank for the credit of Head Office. This does not mean that the branch has a banking account. In order to maintain the strictest control, a matter which is vital when it is borne in mind that a company may have several hundred branches separated from the Head Office by as many miles, the best arrangement is that *all* takings should be paid in to a local bank for the credit of Head

Office and *all* expenses except incidentals which are paid out of a Petty Cash Imprest, should be paid by Head Office direct to the creditor. For example in the case of such items as Rent, Gas and Electricity, the accounts will be rendered to the branch and after checking by the manager they will be forwarded to Head Office for payment. Wages cheques will also be sent each week to the branch managers who, by arrangement, can cash them at the local bank so that he does not need to use his takings.

Purchases by Branches. Under all normal circumstances Head Office would make all purchases in order to obtain the benefits consequent upon large-scale buying, but in some cases branch managers would be allowed a little freedom in this connexion. In the case of a provision business for example it may be policy to purchase eggs from the local poultry farm as by so doing an additional customer might be obtained, whilst the produce itself would be fresher. They could still be invoiced to, and paid by, Head Office, but in order to keep such purchasing under control the branch should be supplied with a printed order book in triplicate so that a copy of every order could be sent to Head Office and a printed note at the foot of every order would keep the amounts within specified limits, such as: "No responsibility will be accepted for any order of more than £20 unless it is countersigned by the Secretary."

Credit Sales. It may be advisable to allow credit sales, even if only to meet competition from other houses, and if this is done a system of control will be necessary. Numbered invoice forms should be supplied to the branches in triplicate so that one copy can be sent to Head Office. If the accounts are kept at Head Office the statements will be rendered from there, leaving very little room for errors or discrepancies.

I. (b) WHOLESALE BRANCHES

Method of Keeping the Accounts. In wholesale branches, where the volume of trade is very much greater, and the transactions large and important in themselves, the accounts are kept in a manner somewhat similar to Departmental Accounts. Separate Stock, Purchases, Sales, and Returns Accounts are opened for each branch, thus, Branch "A" Stock Account, Branch "B" Stock Account; Branch "A" Purchases Account, Branch "B" Purchases Account; Branch "A" Sales Account, Branch "B" Sales Account, etc. Expense accounts are kept for each branch; e.g. Branch "A" Wages, Branch "B" Wages; Branch "A" Rent, Rates, and Taxes, Branch "B" Rent, Rates, and Taxes; and so on. Separate Ledgers also are kept for each branch. For example, Branch "A" Debtors Ledger would contain the personal accounts of Branch

"A" customers. Branch "A" General Ledger would record the Branch Asset Accounts, such as horses and carts, fixtures and fittings, and also the nominal accounts, such as rent, rates and taxes, wages, discounts, bad debts, etc.

How the Buying is Done. The Head Office generally does all the buying; keeps the Creditors' Accounts in its own books, merely distributing the goods to its branches for sale. Sometimes, however, the branches are permitted to order, from outside, any goods they may require, the goods being sent direct to the branch, but invoiced to the Head Office.

How Goods Sold are Invoiced. When invoicing goods to customers, branches make out the invoice in triplicate; one copy is forwarded to the customer, one to the Head Office, and one retained by the branch for reference.

Example 6. From the undermentioned particulars relating to a Head Office and its two wholesale branches, prepare final accounts and Balance Sheet as they would appear in the Head Office books.

	Head Office			Northern Branch			Southern Branch		
	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*
Stock, 1st Jan.	—			4,825	15	6	4,126	17	8
Debtors	—			17,346	10	2	14,986	10	9
Creditors	8,347	17	5	—			—		
Discounts Earned	—			527	11	4	408	16	5
Bad Debts	—			633	6	8	524	19	2
Bills Payable	2,694	13	5	—			—		
Purchases *less* Returns	—			11,876	14	4	9,756	12	10
Furniture, Fixtures, and Fittings	120	16	4	310	18	7	239	16	9
Horses, Harness, Vehicles, etc.	—			1,972	16	4	1,568	12	7
Salaries	985	14	6	—			—		
Cash at Bank	8,906	2	1	—			—		
Share Capital (24,000 Shares of £1 each, fully paid)	24,000	-	-	—			—		
Travellers' Salaries and Expenses	—			3,108	5	11	2,006	4	2
Directors' Fees	500	-	-	—			—		
Sales *less* Returns	—			27,659	16	11	22,914	17	5
Wages	—			2,397	15	2	1,716	11	8
Interim Dividend 8%	1,920	-	-	—			—		
Stock, 31st Dec.	—			5,802	18	6	4,950	14	8
Debenture Interest	425	-	-	—			—		
Reserve Fund A/c	7,500	-	-	—			—		
Discounts Allowed	—			1,646	18	3	1,542	9	6
5% Debentures	8,500	-	-	—			—		
Carriage Inwards	—			510	9	3	458	13	2
Depreciation	13	8	6	234	10	11	186	13	-
Sundry Expenses	—			3,067	2	10	3,010	19	6
Rent, Rates, and Taxes	245	10	8	357	9	6	298	10	4
Horse and Stable Expenses	—			327	11	4	256	1	10
Cash in Hand	21	9	6	68	15	3	50	18	5
Reserve for Bad Debts, 5% Debtors.									

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. Cr.

	Northern Branch	Southern Branch	Total		Northern Branch	Southern Branch	Tota.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
To Stock, 1st Jan.	4,825 15 6	4,126 17 8	8,952 13 2	By Sales (net)	27,659 16 11	22,914 17 5	50,574 14 4
,, Purchases (net)	11,876 14 4	9,756 12 10	21,633 7 2	,, Stock, 31st Dec.	5,802 18 6	4,950 14 8	10,753 13 2
,, Carriage Inwards	510 9 3	458 13 2	969 2 5				
,, Wages	2,397 15 2	1,716 11 8	4,114 6 10				
,, Balance (Gross Profit) c/d	13,852 1 2	11,806 16 9	25,658 17 11				
£	33,462 15 5	27,865 12 1	61,328 7 6	£	33,462 15 5	27,865 12 1	61,328 7 6
To Discounts Allowed	1,646 18 3	1,542 9 6	3,189 7 9	By Balance (Gross Profit) b/d	13,852 1 2	11,806 16 9	25,658 17 11
,, Bad Debts	633 6 8	524 19 2	1,158 5 10	,, Discounts Earned	527 11 4	408 16 5	936 7 9
,, Rent, Rates, and Taxes	357 9 6	298 10 4	655 19 10				
,, Travellers' Salaries and Expenses	3,108 5 11	2,006 4 2	5,114 10 1				
,, Sundry Expenses	3,067 2 10	3,010 19 6	6,078 2 4				
,, Horse and Stable Expenses	327 11 4	256 1 10	583 13 2				
,, Depreciation	234 10 11	186 13 –	421 3 11				
,, Bad Debts Reserve	867 6 6	749 6 6	1,616 13 –				
,, Balance (net profit)	4,137 – 7	3,640 9 2	7,777 9 9				
£	14,379 12 6	12,215 13 2	26,595 5 8	£	14,379 12 6	12,215 13 2	26,595 5 8

GENERAL PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19..

Dr.	£ s. d.	*Cr.*	£ s. d.	£ s. d.
To Rent, Rates, and Taxes	245 10 8	By Branch Profits—		
" Salaries	985 14 6	Northern Branch	4,137 – 7	
" Directors' Fees	500 – –	Southern Branch	3,640 9 2	
" Debenture Interest	425 – –			7,777 9 9
" Depreciation	13 8 6			
" Balance (net profit for year)	5,607 16 1			
	£7,777 9 9			£7,777 9 9

BALANCE SHEET

AS AT 31ST DEC., 19..

Liabilities	£ s. d.	£ s. d.	*Assets*	£ s. d.	£ s. d.
Share Capital— 24,000 Shares of £1 each, fully paid		24,000 – –	Horses, Harness, Vehicles, etc., less depreciation		3,541 8 11
5% Debentures		8,500 – –	Furniture, Fixtures, and Fittings, less depreciation		671 11 8
Reserve Fund A/c		7,500 – –	Stock-in-Trade		10,753 13 2
Sundry Creditors		8,347 17 5	Sundry Debtors	32,333 – 11	
Bills Payable		2,694 13 5	*Less* Bad Debts Reserve	1,616 13 –	
Profit and Loss A/c—					30,716 7 11
Profit for Year	5,607 16 1		Cash in Hand	141 3 2	
Less Interim Dividend	1,920 – –		" at Bank	8,906 2 1	
		3,687 16 1			9,047 5 3
	£	54,730 6 11		£	54,730 6 11

Where the head establishment is a manufacturing concern, e.g. a factory which invoices the goods to its branches at a profit, there would be an extra column in the Trading Account, in order to show the trading profit of the factory as well as the trading profits of the branches.

II. BOOKS KEPT BY THE BRANCHES

Where the branches are semi-independent trading establishments, they generally do their own book-keeping, and at the end of the financial period forward a copy of their Trial Balance for the trading results to be incorporated in the Head Office books.

Head Office Account. Inasmuch as the Head Office finances the branch and supplies it with the greater part of its goods, there is a constant state of indebtedness on the part of the branch to the Head Office. The position is almost that of ordinary debtor and creditor, and is evidenced in the Head Office books by the *debit* balance of the Branch Account, and in the branch books by the *credit* balance of the Head Office Account. In the branch books the Head Office Account takes the place of the Capital Account in an ordinary trader's books. Should a branch have opening entries

to record in its ledger, the excess of assets over liabilities would not be shown as capital but as a debt due to the Head Office. The "Head Office Account" is known by various names; sometimes it is called the "Head Office Current Account," and sometimes the "Head Office Adjustment Account"; while the "Branch Account" in the Head Office books is also called the "Branch Current Account" or the "Branch Adjustment Account."

Remittance Account. To reduce the amount of its indebtedness, the branch remits at intervals a round sum of money to the Head Office. This money is sometimes credited direct to the Branch Account, and sometimes put to the credit of an intermediate Remittance Account. Much depends on how frequently the branch remits. Where remittances are made in moderate sums, and are, therefore, fairly numerous, a separate Remittance Account is of great advantage, as it keeps unnecessary details out of the Branch Account, thereby simplifying matters and making it very much clearer. At balancing time, however, the total of the Remittance Account must be transferred to the credit of the Branch Account, in order to show the correct amount the branch owes to the Head Office at that date. In the branch books, the Remittance Account is designated "Remittances to Head Office," the counterpart of this account in the Head Office books being styled "Remittances from Branch."

Goods and Remittances in Transit. It frequently happens at balancing time that the Branch Account, and also the Remittance Account, as shown by the Branch Trial Balance, do not correspond with their respective amounts as shown by the Head Office Trial Balance. This arises where the branch has forwarded a remittance to the Head Office on the last day of the trading period. The branch, of course, has debited its Remittance Account with amount remitted; but the Head Office, not having received it until the first day of the new trading period, has not credited its Remittance Account. It also occurs whenever the Head Office has forwarded goods to the branch on the last day of the trading period, and has debited the Branch Account. The branch, however, has not credited the Head Office, because it did not receive the goods on that date.

Before attempting the final entries, the balances of the Current Accounts and the Remittance Accounts must be made to agree. The amount of the goods received by the branch, after the close of the trading period, must be deducted from the Branch Account in the Head Office books and put to a Goods in Transit Account. The value of the remittance received by the Head Office, after the close of the trading period, must likewise be deducted from the Remittance Account in the branch books and placed to a Remittance in Transit Account. The adjustments will be effected by

means of Journal entries, and the transit items will then appear on the Balance Sheet. In the ensuing period the adjustments will be written back, i.e. fresh Journal entries will be made reversing the previous ones, thus closing the transit accounts. A specimen is given below. (For the sake of clearness, Trading and Profit and Loss Account items have been omitted and the other items summarized.)

HEAD OFFICE TRIAL BALANCE

31st Dec., 19..

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Sundry Assets	12,621	15	9			
Capital				10,950	–	–
Sundry Creditors				3,128	18	5
Branch Current A/c	2,916	13	2			
(£250 of this is for goods sent on 31st Dec.)						
Remittances from Branch				1,459	10	6
	£15,538	8	11	£15,538	8	11

BRANCH TRIAL BALANCE

31st Dec., 19..

12621
1457
1407

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Sundry Assets	1,457	2	4			
,, Creditors				369	19	8
Head Office Current A/c				2,666	13	2
Remittances to Head Office	1,579	10	6			
(£120 of this represents a remittance made on the 31st Dec.)						
	£3,036	12	10	£3,036	12	10

The effect of the adjustments is as follows—

HEAD OFFICE TRIAL BALANCE

31st Dec., 19..

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Sundry Assets	12,621	15	9			
Capital				10,950	–	–
Sundry Creditors				3,128	18	5
Branch Current A/c	2,666	13	2			
Goods in Transit to Branch	250	–	–			
Remittances from Branch				1,459	10	6
	£15,538	8	11	£15,538	8	11

BRANCH TRIAL BALANCE

31st Dec., 19..

	Dr. £ s. d.	Cr. £ s. d.
Sundry Assets	1,457 2 4	
,, Creditors		369 19 8
Head Office Current A/c		2,666 13 2
Remittances to Head Office	1,459 10 6	
,, in Transit to Head Office	120 – –	
	£3,036 12 10	£3,036 12 10

Eliminating the contra Current and Remittance Accounts, the Head Office Balance Sheet would be as under—

BALANCE SHEET as at 31st Dec., 19..

Liabilities	£ s. d.	*Assets*	£ s. d.
Capital	10,950 – –	Sundry Assets	14,078 18 1
Sundry Creditors	3,498 18 1	Goods in transit to Branch	250 – –
		Remittance in transit from Branch	120 – –
	£14,448 18 1		£14,448 18 1

Alternative Method. The more simple alternative is to treat the stock and cash in transit as adjustments at the year end in the Trading Account in the same way as "accruals" and "prepayments" are provided for in the Expense Accounts. Applying this to Example 3 on page 439 and assuming the items in transit of Stock and Cash are £250 and £120 respectively the result would be as follows—

Dr. BRANCH ACCOUNT *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Balance (Stock)	675 9 6	19.. Dec. 31	By Cash received	7,068 15 6
Dec. 31	,, Goods from Head Office	5,400 11 6		,, ,, in transit c/d	120 – –
,, 31	,, Cash (Rates, Taxes, and Insurance)	85 3 11		,, Stock c/d	765 13 9
,, 31	,, Wages and Salaries	380 12 9		,, ,, in transit c/d	250 – –
,, 31	,, Rent	150 10 6			
,, 31	,, Sundry Expenses	42 11 7			
,, 31	,, Profit and Loss A/c (net profit)	1,469 9 6			
		£8,204 9 3			£8,204 9 3
19.. Jan. 1	To Cash in transit b/d	120 – –			
	,, Stock b/d	765 13 9			
	,, ,, in transit b/d	250 – –			

This avoids the making of two sets of Journal entries and the opening of "Stock in transit" and "Cash in transit" Accounts.

Example 7. From the following Trial Balance of the branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch Ledger and also in the Head Office Ledger.

BRANCH TRIAL BALANCE

31st Dec., 19..

	Dr. £ s. d.	Cr. £ s. d.
Horses and Carts	275 11 8	
Furniture and Fixtures	72 14 3	
Sundry Debtors	1,075 15 3	
,, Creditors		211 14 9
Stock, 1st Jan.	750 19 2	
Purchases from Head Office	2,856 4 11	
Sales		3,975 18 10
Discounts Received		19 11 8
Rent, Rates, and Taxes	93 1 4	
Sundry Expenses	65 9 10	
Depreciation	34 2 7	
Head Office A/c		3,385 19 2
Cash in Hand	127 14 6	
Carriage Inwards	82 13 6	
Wages and Salaries	369 10 7	
Bad Debts	32 15 8	
Remittances to Head Office	1,680 – –	
Discounts Allowed	76 11 2	
	£7,593 4 5	£7,593 4 5
Stock, 31st Dec., £825 15s. 4d.		

HEAD OFFICE JOURNAL

19..			Dr. £ s. d.	Cr. £ s. d.
Dec. 31	Remittances from Branch		1,680 – –	
	To Branch A/c			1,680 – –
	Balance transferred.			
,, 31	Branch Trading A/c		3,689 17 7	
	To Branch A/c			3,689 17 7
	Stock, 1st Jan.	£750 19 2		
	Purchases	2,856 4 11		
	Carriage Inwards	82 13 6		
	Balances transferred.			
,, 31	Branch A/c		4,801 14 2	
	To Branch Trading A/c			4,801 14 2
	Sales	£3,975 18 10		
	Stock, 31st Dec.	825 15 4		
	Balances transferred.			

HEAD OFFICE JOURNAL—(*contd.*)

		£ s. d.	£ s. d.
19..			
Dec. 31	Branch Trading A/c . . .	1,111 16 7	
	Branch A/c	19 11 8	
	To Branch Profit and Loss A/c .		1,131 8 3
	Gross Profit and Discounts Received transferred.		
,, 31	Branch Profit and Loss A/c . .	671 11 2	
	To Branch A/c		671 11 2
	Wages and Salaries £369 10 7		
	Rent, Rates & Taxes 93 1 4		
	Discounts Allowed 76 11 2		
	Sundry Expenses . 65 9 10		
	Bad Debts . . 32 15 8		
	Depreciation . 34 2 7		
	Balances transferred.		
,, 31	Branch Profit and Loss A/c . .	459 17 1	
	To Head Office Profit and Loss A/c		459 17 1
	Net profit of Branch transferred.		

In Head Office Ledger

Dr. REMITTANCES FROM BRANCH *Cr.*

		£			£
19.. Dec. 31	To Branch A/c . .	1,680	19.. Jan.-Dec.	By Cash . . .	1,680

Dr. BRANCH ACCOUNT *Cr.*

		£ s. d.			£ s. d.
19.. Jan. 1	To Balance . .	3,385 19 2	19.. Dec. 31	By Remittances from Branch . .	1,680 - -
Dec. 31	,, Branch Trading A/c . .	4,801 14 2	,, 31	,, Branch Trading A/c . .	3,689 17 7
,, 31	,, Branch Profit and Loss A/c . .	19 11 8	,, 31	,, Branch Profit and Loss A/c . .	671 11 2
			,, 31	,, Balance c/d .	2,165 16 3
		£8,207 5 -			£8,207 5 -
19.. Jan. 1	To Balance b/d .	2,165 16 3			

Dr. BRANCH TRADING ACCOUNT *Cr.*

		£ s. d.			£ s. d.
19.. Dec. 31	To Branch A/c—		19.. Dec. 31	By Branch A/c—	
	Stock . .	750 19 2		Sales . .	3,975 18 10
	Purchases . .	2,856 4 11		Stock . .	825 15 4
	Carriage In .	82 13 6			
,, 31	,, Branch Profit and Loss A/c (gross profit) .	1,111 16 7			
		£4,801 14 2			£4,801 14 2

Dr. BRANCH PROFIT AND LOSS ACCOUNT Cr.

Date		£ s. d.	Date		£ s. d.
19.. Dec. 31	To Branch A/c		19.. Dec. 31	By Branch Trading A/c (gross profit) . . .	1,111 16 7
	Wages and Salaries . .	369 10 7	,, 31	,, Branch A/c—Discounts Received . .	19 11 8
	Rent, Rates, and Taxes . .	93 1 4			
	Discounts Allowed. .	76 11 2			
	Sundry Expenses	65 9 10			
	Bad Debts .	32 15 8			
	Depreciation .	34 2 7			
,, 31	,, Head Office Profit and Loss A/c (net profit) . .	459 17 1			
		£1,131 8 3			£1,131 8 3

In Branch Ledger

Dr. REMITTANCES TO HEAD OFFICE Cr.

Date		£	Date		£
19.. Jan.-Dec.	To Cash .	1,680	19.. Dec. 31	By Transfer to Head Office A/c . .	1,680

HEAD OFFICE ACCOUNT

Date		£ s. d.	Date		£ s. d.
19.. Dec. 31	To Transfer from Remittance A/c .	1,680 - -	19.. Jan. 1	By Balance . .	3,385 19 2
,, 31	,, Balance c/d . .	2,165 16 3	Dec. 31	,, Profit and Loss A/c (net profit) .	459 17 1
		£3,845 16 3			£3,845 16 3
			19.. Jan. 1	By Balance b/d .	2,165 16 3

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. For the Year Ending 31st Dec., 19.. Cr.

	£ s. d.		£ s. d.
To Stock, 1st Jan.	750 19 2	By Sales	3,975 18 10
,, Purchases from Head Office .	2,856 4 11	,, Stock, 31st Dec. . . .	825 15 4
,, Carriage Inwards . .	82 13 6		
,, Balance (gross profit) . .	1,111 16 7		
	£4,801 14 2		£4,801 14 2
To Wages and Salaries . .	369 10 7	By Gross Profit b/d . . .	1,111 16 7
,, Rent, Rates, and Taxes	93 1 4	,, Discounts Received . .	19 11 8
,, Sundry Expenses . .	65 9 10		
,, Bad Debts	32 15 8		
,, Discounts Allowed . .	76 11 2		
,, Depreciation	34 2 7		
,, Head Office A/c (net profit transferred) .	459 17 1		
	£1,131 8 3		£1,131 8 3

BALANCE SHEET

As at 31st Dec., 19..

Liabilities		£ s. d.	*Assets*	£ s. d.
Sundry Creditors . . .		211 14 9	Cash	127 14 6
Head Office A/c—			Sundry Debtors . . .	1,075 15 3
Balance, 1st Jan.	£529 14 3		Stock	825 15 4
Add Goods supplied by Head Office	2,856 4 11		Horses and Carts (*less* depreciation)	275 11 8
	3,385 19 2		Furniture and Fixtures (*less* depreciation)	72 14 3
Less Remittances	1,680 – –			
	1,705 19 2			
Add Profit .	459 17 1			
		2,165 16 3		
		£2,377 11 –		£2,377 11 –

The foregoing method would apply to both retail and wholesale branches, the principal difference between the two being that, in the latter, the trade would assume much larger proportions, and the turnover might run into tens and hundreds of thousands with the figures for other items correspondingly large.

QUESTIONS

1. What methods are there of dealing with the record of *credit* sales in the case of Branches?
2. How is depreciation dealt with in Branch Accounts?
3. How are variations in the selling price (according to quantity taken) dealt with in Branch Accounts where the goods have been invoiced to the Branch at selling price?
4. Explain and illustrate the use of "Monthly Stock Accounts."
5. Explain the method of keeping the accounts in the case of *wholesale* branches.
6. How is the buying usually done in wholesale branches? How are goods sold usually invoiced?
7. What difference is there in the book-keeping where branches keep their own books?
8. Explain the nature and *modus operandi* of the "Head Office Account."
9. Explain and illustrate the use of a "Remittance Account."
10. Explain and illustrate the method of dealing with goods and remittances *in transit*.

Inter-Branch Transactions. Where there are several branches, each permitted to have credit dealings with the others, they will keep a Current Account with one another as well as with the Head Office. At balancing time, the balances of these Current Accounts will be liabilities and assets of the branches, as between themselves, but not liabilities of the business as a whole. When the General Balance Sheet is prepared in tabular or columnar form, they must be shown in their proper columns, in order to make the vertical totals agree. A columnar Balance Sheet, however, is only for the benefit of the business, and when the General Balance Sheet is framed, the balances of the Head Office Current Accounts, the Branch Current Accounts, and the inter-Branch Current Accounts, being contras, can easily be eliminated.

Example 8. Three partners, B. Brown, J. Jones, and S. Smith, have branch businesses working independently in London, Birmingham, and Dundee. Brown manages the London business, and receives two-thirds of the profits therefrom, the balance being shared equally between Jones and Smith. Jones manages the Birmingham business, receiving half of the profits therefrom, the balance being shared equally between Brown and Smith. Smith manages the Dundee business, receiving one-third of the profits therefrom, the balance being shared equally between Brown and Jones. The branches buy from, and sell to, one another at a small inter-branch profit.

From the following Trial Balances draw up a tabular Trading and Profit and Loss Account, and a Balance Sheet in (*a*) columnar form, (*b*) ordinary form. Credit each partner with interest on Capital at 5 per cent per annum, and depreciate Plant and Machinery at the rate of 10 per cent per annum. Show also the partners' Capital Accounts, and the Branch Current Accounts, in the respective Branch Ledgers.

LONDON TRIAL BALANCE

31st Dec., 19..

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Plant and Machinery	5,408	6	4			
Cash in Hand	178	3	9			
,, at Bank	7,157	12	2			
Current A/cs—						
Birmingham	2,029	16	7			
Dundee	1,970	18	6			
Stock, 1st Jan.	5,896	12	5			
Sundry Debtors	11,392	–	9			
,, Creditors				7,047	14	5
Purchases	36,421	11	8			
,, from Branches	2,857	14	3			
Sales				54,821	17	11
,, to Branches				1,723	17	8
Capital A/c—B. Brown				18,862	3	10
Drawings A/c—B. Brown	2,500	–	–			
Trade Expenses	172	19	2			
Wages	3,608	12	9			
Discounts Allowed	507	12	4			
Discounts Received				412	13	8
Printing and Stationery	220	18	4			
Advertising	286	10	9			
Carriage Inwards	526	14	5			
,, Outwards	817	11	2			
Salaries	627	6	8			
Bad Debts	287	5	6			
	£82,868	7	6	£82,868	7	6

Stock, 31st Dec., £5,648 13s. 2d.

BIRMINGHAM TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	4,187	10	8			
Cash in Hand	94	13	4			
,, at Bank	5,063	4	8			
Current A/c—London				2,029	16	7
Dundee	864	9	10			
Stock, 1st Jan.	4,563	17	9			
Sundry Debtors	9,746	11	10			
,, Creditors				4,976	15	5
Purchases	28,198	4	10			
,, from Branches	2,673	10	2			
Sales				39,857	13	9
,, to Branches				3,163	11	6
Capital A/c—J. Jones				12,183	18	4
Drawings A/c—J. Jones	2,000	–	–			
Trade Expenses	104	19	7			
Wages	2,417	15	6			
Discounts Allowed	406	8	9			
,, Received				357	15	8
Printing and Stationery	107	13	10			
Advertising	216	18	6			
Carriage Inwards	419	19	5			
,, Outwards	796	4	11			
Salaries	508	10	6			
Bad Debts	198	17	2			
	£62,569	11	3	£62,569	11	3
Stock, 31st Dec., £4,617 11s. 8d.						

DUNDEE TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	3,158	16	6			
Cash in Hand	76	11	4			
,, at Bank	4,586	9	5			
Current A/cs—London				1,970	18	6
Birmingham				864	9	10
Stock, 1st Jan.	3,616	15	11			
Sundry Debtors	7,658	12	9			
,, Creditors				3,018	11	7
Purchases	23,839	16	8			
,, from Branches	2,272	9	5			
Sales				32,759	12	11
,, to Branches				2,916	4	8
Capital A/c—S. Smith				9,175	10	7
Drawings A/c—S. Smith	1,500	–	–			
Trade Expenses	78	19	5			
Wages	1,987	14	3			
Discounts Allowed	314	16	5			
,, Received				296	14	6
Printing and Stationery	92	18	6			
Advertising	186	13	3			
Carriage Inwards	386	17	2			
,, Outwards	687	15	4			
Salaries	413	6	4			
Bad Debts	143	9	11			
Stock, 31st Dec., £3,705 13s. 9d.	£51,002	2	7	£51,002	2	7

GENERAL TRADING AND PROFIT

For the Year

	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
To Stock, 1st Jan.	5,896	12	5	4,563	17	9	3,616	15	11	14,077	6	1
,, Purchases .	36,421	11	8	28.198	4	10	23,839	16	8	88,459	13	2
,, ,, from Branches	2,857	14	3	2,673	10	2	2,272	9	5	7,803	13	10
,, Wages .	3,608	12	9	2,417	15	6	1,987	14	3	8,014	2	6
,, Carriage Inwards	526	14	5	419	19	5	386	17	2	1,333	11	-
,, Balance (Gross Profit) .	12,883	3	3	9,365	9	3	7,277	17	11	29,526	10	5
£	62,194	8	9	47,638	16	11	39,381	11	4	149,214	17	-
To Discounts Allowed	507	12	4	406	8	9	314	16	5	1,228	17	6
,, Carriage Outwards .	817	11	2	796	4	11	687	15	4	2,301	11	5
,, Bad Debts .	287	5	6	198	17	2	143	9	11	629	12	7
,, Printing and Stationery .	220	18	4	107	13	10	92	18	6	421	10	8
,, Advertising .	286	10	9	216	18	6	186	13	3	690	2	6
,, Salaries .	627	6	8	508	10	6	413	6	4	1,549	3	6
,, Trade Expenses .	172	19	2	104	19	7	78	19	5	356	18	2
,, Interest on Capital .	943	2	2	609	3	11	458	15	6	2,011	1	7
,, Depreciation of Plant and Machinery .	540	16	8	418	15	1	315	17	8	1,275	9	5
,, Balance (Net Profit) .	8,891	14	2	6,355	12	8	4,882	-	1	20,129	6	11
£	13,295	16	11	9,723	4	11	7,574	12	5	30,593	14	3
To B. Brown .	5,927	16	2	1,588	18	2	1,627	6	8	9,144	1	-
,, J. Jones .	1,481	19	-	3,177	16	4	1,627	6	8	6,287	2	-
,, S. Smith .	1,481	19	-	1,588	18	2	1,627	6	9	4,698	3	11
	£8,891	14	2	6,355	12	8	4,882	-	1	20,129	6	11

AND LOSS ACCOUNT

ENDING 31ST DEC., 19..

	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
By Sales . . .	54,821	17	11	39,857	13	9	32,759	12	11	127,439	4	7
" " to Branches .	1,723	17	8	3,163	11	6	2,916	4	8	7,803	13	10
" Stock, 31st Dec. .	5,648	13	2	4,617	11	8	3,705	13	9	13,971	18	7
£	62,194	8	9	47,638	16	11	39,381	11	4	149,214	17	–
By Gross Profit b/d .	12,883	3	3	9,365	9	3	7,277	17	11	29,526	10	5
" Discounts Received . .	412	13	8	357	15	8	296	14	6	1,067	3	10
£	13,295	16	11	9,723	4	11	7,574	12	5	30,593	14	3
By Net Profit b/d .	8,891	14	2	6,355	12	8	4,882	–	1	20,129	6	11
	£8,891	14	2	6,355	12	8	4,882	–	1	20,129	6	11

COLUMNAR BALANCE SHEET

Liabilities	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Sundry Creditors .	7,047	14	5	4,976	15	5	3,018	11	7	15,043	1	5
Current A/cs —												
London . .	—			2,136	15	9	2,116	6	2	4,253	1	11
Birmingham . .	—			—			902	18	4	902	18	4
Dundee . .	—			—			—			—		
Capital A/cs—												
B. Brown . .	26,449	7	-							26,449	7	-
J. Jones . .				17,080	4	3				17,080	4	3
S. Smith . .							12,832	10	-	12,832	10	-
£	33,497	1	5	24,193	15	5	18,870	6	1	76,561	2	11

GENERAL BALANCE SHEET (ORDINARY FORM)

Liabilities	£	s.	d.	£	s.	d.
Sundry Creditors				15,043	1	5
Capital A/cs—						
B. Brown, 1st Jan.	18,862	3	10			
Add Interest	943	2	2			
,, Share of Profits	9,144	1	-			
	28,949	7	-			
Less Drawings	2,500	-	-			
				26,449	7	-
J. Jones, 1st Jan.	12,183	18	4			
Add Interest	609	3	11			
,, Share of Profits	6,287	2	-			
	19,080	4	3			
Less Drawings	2,000	-	-			
				17,080	4	3
S. Smith, 1st Jan.	9,175	10	7			
Add Interest	458	15	6			
,, Share of Profits	4,698	3	11			
	14,332	10	-			
Less Drawings	1,500	-	-			
				12,832	10	-
				£71,405	2	8

As at 31st December, 19..

Assets	London			Birmingham			Dundee			Total		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Cash in hand . .	178	3	9	94	13	4	76	11	4	349	8	5
,, at Bank . .	7,157	12	2	5,063	4	8	4,586	9	5	16,807	6	3
Sundry Debtors .	11,392	–	9	9,746	11	10	7,658	12	9	28,797	5	4
Current A/cs—												
London . .	—			—			—			—		
Birmingham . .	2,136	15	9	—			—			2,136	15	9
Dundee . .	2,116	6	2	902	18	4	—			3,019	4	6
Stock-in-Trade . .	5,648	13	2	4,617	11	8	3,705	13	9	13,971	18	7
Plant and Machinery (*less* depreciation) .	4,867	9	8	3,768	15	7	2,842	18	10	11,479	4	1
£	33,497	1	5	24,193	15	5	18,870	6	1	76,561	2	11

As at 31st December, 19..

Assets	£	s.	d.	£	s.	d.
Cash in hand	349	8	5			
,, at Bank	16,807	6	3			
				17,156	14	8
Sundry Debtors				28,797	5	4
Stock-in-Trade				13,971	18	7
Plant and Machinery (*less* depreciation) . .				11,479	4	1
				£71,405	2	8

In London Ledger

Dr. B. BROWN.—CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Dec. 31	To Drawings . .	2,500	–	–	Jan. 1	By Balance . .	18,862	3	10
,, 31	,, Balance c/d . .	26,449	7	–	Dec. 31	,, Interest . .	943	2	2
					,, 31	,, Share of Profits—			
						London . .	5,927	16	2
						Birmingham .	1,588	18	2
						Dundee . .	1,627	6	8
	£	28,949	7	–		£	28,949	7	–
					19..				
					Jan. 1	By Balance b/d . .	26,449	7	–

Dr. BIRMINGHAM CURRENT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance . .	2,029	10	7	Dec. 31	By Jones—Share of London profit .	1,481	19	–
Dec. 31	,, Brown—Share of Birmingham profit . .	1,588	18	2	,, 31	,, Balance c/d . .	2,136	15	9
		£3,618	14	9			£3,618	14	9
19..									
Jan. 1	To Balance b/d . .	2,136	15	9					

Dr. DUNDEE CURRENT ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Jan. 1	To Balance . .	1,970	18	6	Dec. 31	By Smith—Share of London Profit .	1,481	19	-
Dec. 31	,, Brown—Share of Dundee Profit .	1,627	6	8	,, 31	,, Balance c/d . .	2,116	6	2
		£3,598	5	2			£3,598	5	2
19..									
Jan. 1	To Balance b/d . .	2,116	6	2					

In Birmingham Ledger

Dr. J. JONES.—CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19..					19..				
Dec. 31	To Drawings . .	2,000	–	–	Jan. 1	By Balance .	12,183	18	4
,, 31	,, Balance c/d . .	17,080	4	3	Dec. 31	,, Interest . .	609	3	11
					,, 31	,, Share of Profits—			
						Birmingham .	3,177	16	4
						London . .	1,481	19	–
						Dundee . .	1,627	6	8
	£	19,080	4	3		£	19,080	4	3
					19..				
					Jan. 1	By Balance b/d .	17,080	4	3

Dr. LONDON CURRENT ACCOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Jones—Share of London Profit .	1,481	19	–	Jan. 1	By Balance . .	2,029	16	7
" 31	" Balance c/d . .	2,136	15	9	Dec. 31	" Brown—Share of Birmingham Profit . .	1,588	18	2
		£3,618	14	9			£3,618	14	9
					19.. Jan. 1	By Balance b/d . .	2,136	15	9

Dr. DUNDEE CURRENT ACCOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To Balance . .	864	9	10	Dec. 31	By Smith—Share of Birmingham Profit . .	1,588	18	2
Dec. 31	" Smith—Share of Dundee Profit .	1,627	6	8	" 31	" Balance c/d . .	902	18	4
		£2,491	16	6			£2,491	16	6
19.. Jan. 1	To Balance b/d . .	902	18	4					

In Dundee Ledger

Dr. S. SMITH.—CAPITAL ACCOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Drawings . .	1,500	–	–	Jan. 1	By Balance . .	9,175	10	7
" 31	" Balance c/d . .	12,832	10	–	Dec. 31	" Interest . .	458	15	6
					" 31	" Share of Profits—			
						Dundee . .	1,627	6	9
						London . .	1,481	19	–
						Birmingham .	1,588	18	2
	£	14,332	10	–		£	14,332	10	–
					19.. Jan. 1	By Balance b/d . .	12,832	10	–

Dr. LONDON CURRENT ACCOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Brown—Share of London Profit .	1,481	19	–	Jan. 1	By Balance . .	1,970	18	6
" 31	" Balance c/d . .	2,116	6	2	Dec. 31	" Brown—Share of Dundee Profit .	1,627	6	8
		£3,598	5	2			£3,598	5	2
					19.. Jan. 1	By Balance b/d . .	2,116	6	2

Dr. BIRMINGHAM CURRENT ACCOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Jones—Share of Birmingham Profit . .	1,588	18	2	Jan. 1	By Balance . .	864	9	10
31	" Balance c/d . .	902	18	4	Dec. 31	" Jones—Share of Dundee Profit .	1,627	6	8
		£2,491	16	6			£2,491	16	6
					19.. Jan. 1	By Balance b/d . .	902	18	4

FOREIGN EXCHANGE

Before we proceed to treat of Foreign Branches, it is eminently advisable, if not absolutely necessary, to deal briefly with the subject of foreign exchange.

Foreign Exchange. This term is used to describe the means by which nations discharge or settle the mutual indebtedness that arises out of their trading with one another. Since, however, foreign debts are usually paid by bills of exchange, the term is also used, in a narrow sense, to denote the principles governing the creation, negotiation, and payment of foreign bills of exchange.

Currency. This term signifies the circulating medium of a country by means of which trade is carried on. **Metallic Currency** denotes the gold, silver, and copper coins in current use. **Paper Currency** denotes the bank notes, bills of exchange, cheques, etc., that are used as substitutes for coin.

Unit of Currency. Each country has, of course, its own currency and its own special terms for expressing monetary value. Each country has, also, some standard unit of currency for the purpose of financial calculations. In this country the unit is the £ sterling; *sterling* means standard English money. In France, the unit is the franc, in Germany the mark, in the United States the dollar, in Russia the rouble, in Italy the lira, in India the rupee, in Japan the yen, and so on.

Rate of Exchange. The rate of exchange is the rate at which the currency of one country can be converted into the currency of another. It consists of two terms, one fixed and the other fluctuating. Thus, in the exchange between London and Paris, the fixed term is the £1 sterling, and the fluctuating term is the varying number of francs and centimes given in exchange for the £1 sterling. In the exchange between London and India, the fixed term is the Indian rupee, and the fluctuating term is the varying amount of British pence given as an equivalent for the rupee. In quotations of "Rates of Exchange" only the fluctuating terms are, as a rule, stated, the fixed terms being understood.

Mint Par of Exchange.[1] The standard gold coins of countries that have a gold standard are mixtures of pure gold and alloy; pure gold is too soft for coinage purposes, and alloy hardens it and makes it more serviceable. Now, if all these countries mixed the gold and the alloy in the same proportions, we should have a uniform gold coin as regards purity. But they do not. British gold, for instance, is $\frac{11}{12}$ths fine, that is, 11 parts pure gold to 1 part of alloy. Foreign gold, on the other hand, is mostly $\frac{9}{10}$ths fine, that is 9 parts pure gold to 1 part of alloy. Hence there is no uniform gold coin, because the standard gold coins of the various countries differ in weight and fineness. The coinage of each country,

[1] These paragraphs are only of historical interest, as most countries do not operate gold standard exchange.

however, is governed by its coinage laws. In those countries, therefore, that have a gold standard, the relative values of their gold coins can be established by calculating, from the coinage laws, the exact quantity of pure gold contained in each coin. This exact equivalent is called the mint par of exchange. Where a country has only a silver standard, it is not possible to establish a mint par of exchange with a country that has a gold standard, owing to the fluctuating price of silver.

Varying Rates of Exchange. If remittances were made in gold, the rate of exchange would be the mint par of exchange, plus or less the cost of transporting the gold. The cost of transport is added if a country quotes the rate in its own currency, and deducted if a country quotes the rate in the currency of a foreign country. Settlement of international indebtedness, however, is effected by means of bills of exchange, this being a more convenient and cheaper method. Where the total debts of two countries are not equal, there will be an ultimate balance, which can only be settled by the import or export of gold. The mint par or nominal rate of exchange is seldom the existing rate of exchange; when it is, it is a mere coincidence. The commercial or actual rate of exchange varies from day to day, being influenced by many causes, principally, however, by the law of supply and demand; it may rise higher or fall lower than the mint par. The rate of exchange is said to be *favourable to* or *against* us, according as it is higher or lower than the mint par. Low rates are favourable to the country in whose currency they are quoted, because the purchasers of bills have to give *less* than the mint par value of money for the foreign equivalent. High rates are against the country in whose currency they are quoted, because the purchasers of bills have to give *more* than the mint par value of money for the foreign equivalent. There are limits, however, to the rise and fall of the rate of exchange. These limits are determined, theoretically, by the "gold points," that is, the points at which it becomes cheaper to send specie, i.e. actual coin.

How Rates of Exchange are Quoted. There is, of course, a market for foreign bills just the same as for other commodities. In London the bill brokers and foreign bankers used to meet on Tuesdays and Thursdays at the Royal Exchange for the purpose of buying and selling foreign bills. In February, 1921, however, these meetings were discontinued, as business in bills had become more and more a matter of bargaining, and all the joint stock banks were conducting foreign exchange operations. The current rates of exchange can be seen on the financial page of almost every important daily paper.

There are two methods of quoting a foreign rate of exchange, namely—

(*a*) *Number of foreign units to the £.* Examples of countries quoted by this method are America, France, and Germany.

(*b*) *Number of shillings and pence to the foreign unit.* Examples of countries quoted by this method are India and China.

Under (*a*) the pound remains *fixed*, while the number of dollars, francs, and marks varies; whilst under (*b*) the foreign unit remains *fixed* and the pound varies.

Conversion of Currency into Sterling. The calculation required will be either a division or multiplication sum, according to how the rate is quoted.

(*a*) *When the Rate of Exchange states the equivalent of the foreign currency to the English unit, i.e. the £ sterling.*

Rule. Divide the currency amount by the rate, after adding on noughts, if necessary, to clear any decimals in the divisor. The answer will be in pounds and decimals of a pound. Convert the latter, at sight, into shillings and pence.

CONVERSION FROM AND INTO STERLING

Example 1. Find the value in sterling of U.S.A. $10,351 at $2·80 to the £.

$$\frac{10351}{2{\cdot}80} = \frac{103510}{28} = £3696{\cdot}786 = £3{,}696\ 15\text{s.}\ 9\text{d.}$$

Example 2. Convert into sterling 9,121 Canadian dollars 14 cents at 3·07 dollars to the £.

$$\frac{9121{\cdot}14}{3{\cdot}07} = \frac{912114}{307} = £2971{\cdot}055 = £2{,}971\ 1\text{s.}\ 1\text{d.}$$

Example 3. Exchange into the sterling equivalent $8462·80 at $3 to the £.

$$8462{\cdot}80 \div 3 = £2820{\cdot}933 = £2{,}820\ 18\text{s.}\ 8\text{d.}$$

(*b*) *When the Rate of Exchange states the amount of English pence equivalent to the foreign monetary unit.*

Rule. Multiply the currency amount by the rate and divide by 240. The answer will be in pounds and decimals of a pound. Convert the latter, at sight, into shillings and pence.

Example. Find the sterling equivalent of 2,428 rupees 13 annas at 1s. 6d. per rupee.

			£	s.	d.
$\frac{2428 \times 18}{240} = £182{\cdot}1$		=	182	2	-
16 annas = 1 rupee	= 18d.				
1 anna	= $1\frac{1}{8}$d.				
13 annas	= $14\frac{1}{2}$d.	=		1	3 approx.
		Ans. =	£182	3	3

Modern Methods of Calculating. Much time and labour may be saved by the student adopting modern methods of calculation, principally contracted division, decimalization at sight of shillings and pence, and conversion at sight of decimals into shillings and pence. The following example will show clearly the advantages to be derived by so doing.

Example 1. Find the value in sterling of 36,277·75 francs at 979 francs to the £.

Old Method

97900)3627775(£37
293700
690775
685300
5475
20
109500(1s.
97900
11600
12
139200(1d.
97900
41300

Ans. = £37 1s. 1d.

Modern Method

97900)3627775(37·0559
690775
5475
580
90
2

Ans. = £37 1s. 1d.

Example 2. Find the value in francs and centimes of £1,434 17s. 11d. at 979 francs to the £.

Modern Method

143489·600	
9·79	
1291406·40	0
100442·72	0
12914·06	4
1404763·18	4

Ans. = 1,404,763 francs 18 centimes

Construction of Tables for Converting Sterling into Currency. In the business office or counting house the student will, no doubt, find a specially compiled and printed book of tables by means of which the conversion of sterling into currency can be simply and rapidly effected. Small decimal tables of nine multiples are extremely useful, and can be very easily constructed by the student for his own use. All that is necessary is to start with some given rate for the £, and then find the decimal base for the shillings and pence respectively. For example, to construct a table for converting sterling into francs and centimes at the rate of 979 francs to the £. First, as £1 is the sterling equivalent of 979 francs, this amount will form the pounds basis; then £2 will equal 1958 francs, and so on. Next, 979 francs ÷ 20 (£1 = 20s.) gives 48·95 francs, which is the equivalent of 1s., and thus forms the shillings basis; then 2s. will equal 97·90 francs, and so on. Again, 48·95 francs ÷ 12 (1s. = 12d.) gives $4{\cdot}0791\dot{6}$, which is the equivalent of 1d., and thus forms the pence basis; then 2d. will equal $8{\cdot}158\dot{3}$ francs, and so on.

To multiply by 10, move the decimal point one place to the right; by 100, 2 places; by 1,000, 3 places; by 10,000, 4 places; and so on. To multiply by ·1, move the decimal point 1 place to the left; by ·01, 2 places; by ·001, 3 places; and so on.

Construction of Tables for Converting Currency into Sterling. As previously mentioned, books of tables will, no doubt, be in use in the office or counting house. Small decimal tables of nine multiples can, however, be easily constructed by the student. In the case of francs, the base will be obtained by deduction from the figures for the £ sterling. Thus—

$$
\begin{aligned}
979 \text{ francs} &= £1 \\
1 \text{ franc} &= £\frac{1}{979} \\
&= £{\cdot}00102145
\end{aligned}
$$

Example 1. Convert 7,612 francs 63 centimes into sterling at the rate of 979 francs to the £.

97900)761263(7·7759 = £7 15s. 6d.

759630

743300

580000

905000

FORMS OF FOREIGN REMITTANCES

Bank Draft, Commercial Bills. In the rates of exchange, two prices are quoted, one for bank drafts, the other for commercial or ordinary trade bills. The former is slightly dearer than the latter, as the banker has naturally a higher standing than an ordinary trader.

Telegraphic Transfer. This is a message sent by wire, ordering the transfer of a specified sum of money from one person to another by means of debit and credit of their respective accounts. Branch businesses and agents abroad often cable to headquarters for immediate funds. Headquarters then instruct their bankers to cable to the bank's representatives abroad to place a certain sum at the disposal of the branch or agency. This method of remittance is slightly dearer than buying a bill.

Sterling Bills on London. Persons abroad who owe money to this country prefer to remit us sterling bills on London, rather than have us draw on them in their own currency. Thus, England draws few bills, but accepts very many. London being the most important banking centre of the world, having a rate of exchange with every commercial country of any importance, sterling bills on London are readily negotiated abroad. These bills are not remitted by the drawers direct to London, but are purchased by other countries having payments to make to this country. We thus receive payment in our own money for goods sold to foreign countries.

TRANSACTIONS IN CURRENCY

It is now proposed to give an example of the method of treating items in currency in the subsidiary books and Ledger. Generally speaking, the English merchant will invoice to his foreign customer in *sterling*, in order to ensure payment of the exact amount of the invoice, thus leaving the customer to deal with any profit or loss on exchange. But there are cases where the reverse procedure is necessary in order to facilitate trade.

Example 1. A. Smith, of London, sold goods to R. Brown, of Chicago, as follows—

12 cases Fancy Vases @ \$8·35 per case.
12 ,, ,, Goods @ \$11·46 ,, ,,

The items were invoiced to Brown in currency and converted in Smith's books at the rate of \$4·03. Brown remitted a draft, which was cashed at the rate of the day on which it was received, viz. \$2·80. Show Smith's Day Book and Ledger with reference to the above.

In Smith's Books

FOREIGN SALES BOOK

Date	Particulars	Ledger Folio	Currency		Sterling		
			$	c.	£	s.	d.
	R. Brown, Chicago—						
	12 cases Fancy Vases @ $8·35 .		100	20			
	12 „ „ Goods @ $11·46 .		137	52			
			237	72	58	19	9

FOREIGN SALES LEDGER

Dr. R. BROWN, CHICAGO *Cr.*

	$	c.	£	s.	d.		$	c.	£	s.	d.
To Goods . .	237	72	58	19	9	By Draft .	237	72	84	18	0
„ Difference in Exchange (profit) .			25	18	3						
$	237	72	£84	18	0	$	237	72	£84	18	0

QUESTIONS

1. What is meant by "inter-branch" transactions? How are they dealt with? Do the "inter-branch" balances affect the final Balance Sheet?

2. Define the term "foreign exchange."

3. Explain the meaning of the following: currency, metallic currency, paper currency, unit of currency, sterling.

4. What is meant by "rate of exchange"?

5. Explain briefly what is meant by "mint par of exchange" and how it is ascertained.

6. How do you account for varying rates of exchange? What is meant by rates being *favourable to* or *against* a country?

7. In what two ways are rates of exchange quoted? Give examples.

8. How is currency converted into sterling? Give examples. Find the value in sterling of 47,884·75 francs @ 979, and prove your answer by re-converting it into currency, modern methods of working to be adopted in each case.

9. Convert the following into sterling and check your answer by re-conversion—

(*a*) 2,980 dollars 97 cents @ $2·80 to the £.
(*b*) 8,079 francs 46 centimes @ 979 francs to the £.
(*c*) 18,598 rupees at 1s. 5$\frac{5}{16}$d. per rupee.

10. Convert the following into foreign currency and prove your answers by re-conversion—

(*a*) £225 14s. 7d. into francs and centimes @ 12·23 Swiss francs to the £.
(*b*) £609 10s. 5d. into rupees and annas @ 18d. per rupee.

FOREIGN BRANCHES

Special Features. As with home branches, so also with foreign branches, the book-keeping will vary according as the detail is recorded in the Head Office books or only in the Branch books. The general book-keeping will, therefore, be similar to that outlined in the preceding pages. The special features are the conversion of the accounts from currency into sterling, and the difficulties arising from the fluctuations in the rate of exchange.

Fixed and Fluctuating Rates of Exchange. Where the rate of exchange is fairly stable, slight fluctuations are not taken into consideration at all, and the accounts, with the exception of the Remittance Account, are converted into sterling at a fixed rate of exchange.

In other cases, where the rate of exchange is subject to violent fluctuations, the conversion of the accounts into sterling at a uniform rate for each item would result in showing fictitious branch profits or losses. To obviate this, the accounts are converted at different rates, as under—

1. Remittances at the actual rate of the day when made or cashed.

2. Fixed assets, also additions thereto, at the rate of the day when purchased. Additions, however, are sometimes converted at the average rate for the year or period, especially if made at various dates throughout the year. Fixed liabilities (loans, mortgages, etc.) at the rate ruling on the day they were incurred.

3. Floating assets and liabilities at the current rate of exchange on the date of balancing the books.

4. Revenue items, i.e. those affecting the Trading and Profit and Loss Account, at the average rate for the year or period. If the Branch Trial Balance discloses merely the Profit or Loss for the period, then there will be only this amount to convert at the average rate.

The fixed assets and liabilities will remain in the foreign books, and they should, therefore, appear from time to time at the same value. The floating assets and liabilities are converted at the current rate at the date of balancing, in order that the Balance Sheet may be an approximately correct representation of the state of affairs. The revenue items are converted at the average rate for the period, because they have been going on continuously throughout the year. The stocks at the commencement and close of the period, although they appear in the Trading Account, are converted, however, at the current rate on the dates of balancing. Thus, the stock at the commencement will appear in the current Trading Account at the same value as it appeared in the Balance Sheet of the previous period. In view of the permanent change in exchange some companies have reduced their capital, and reduced their foreign fixed assets to present rates.

Procedure in the Head Office Books. Where the whole of the book-keeping is done by the Head Office the Foreign Branch Ledger will be ruled with double columns, one for currency, and the other for sterling. Entries will be made from the periodical Branch Returns, the items being converted into sterling at once, if a fixed rate of exchange is employed, and at balancing time, if various rates are employed.

Where the branch forwards to the Head Office a copy of its Trial Balance in currency, the Head Office is obliged to convert the various items into sterling before it can bring them into account. This will be done either at one fixed rate or at various rates, as the case may be. The Remittance Account is, of course, already converted, the remittances having been cashed on the day they were received from the branch, or purchased on the day they were forwarded to the branch. The value in sterling of the Head Office Account is also known, being the amount brought forward from the last balancing.

Difference in Exchange. If, after conversion into sterling, the two columns of the Branch Trial Balance do not agree (and it may be taken they never will) the totals must be made to correspond, by writing the balance on the lesser side, designating it "Difference in Exchange." A debit balance will signify a loss, and a credit balance will denote a profit; this amount will be debited or credited to the Branch Profit and Loss Account in the same way as other gains and losses. Where, however, the items are all converted at the same fixed rate, there will be no "Difference in Exchange" except for that appearing in the Remittance Account. In some cases, the profit or loss on exchange is not shown as a separate item, but is apportioned among the various items of expenditure, thus making the latter proportionately less in the case of a profit on exchange, and proportionately greater in the case of a loss.

Depreciation. Some accountants consider it incorrect to convert depreciation at the average rate for the year, even though it is a revenue item, and prefer to convert fixed assets, and the depreciation of them, at the same rate. It should be noted that, in the case of foreign branches, depreciation is often dealt with exclusively by the Head Office, and on the *sterling* figures. In such cases, the Head Office would make an adjusting entry in its Journal, thus—

Depreciation	*Dr.*
To Branch Current A/c .	*Cr.*

sending a credit note for the amount to the branch, which would

pass the item through the branch books by means of a Journal entry similar to the following—

Head Office Current A/c . . *Dr.*
To Fixtures and Fittings . *Cr.*
for depreciation thereon.

QUESTIONS

1. What are the special features of "foreign" branches?
2. What rate of exchange is adopted for conversion of foreign branch accounts into sterling?
3. In the case of a foreign country with a very fluctuating rate of exchange, what different rates are used in the conversion of accounts, and why?
4. Explain the method of procedure in the Head Office books as regards the record of the branch transactions.
5. What is meant by the term "Difference in Exchange"? How does it arise? In what two different ways is it dealt with in the accounts?
6. How is depreciation of fixed assets dealt with in the case of foreign branches?

Mine, Plantation, Etc. In the case of a foreign mine or plantation (tea, cocoa, rubber, tobacco, etc.) making monthly returns of its cash expenditure on capital and revenue account, the Head Office books would be ruled with double columns, one for currency and one for sterling; and both sets of figures would be recorded. At balancing time, the conversion would take place—according to the special circumstances mentioned previously—either at a fixed rate or at varying rates. A Remittance Account is employed; but, in many cases, the remittances are from the Head Office to the branch, instead of, as in other cases, from the branch to the Head Office. The reason is that the Head Office has to finance the mine or plantation. The output or crop of the latter is forwarded to Europe for sale by auction, and the proceeds are remitted direct to the Head Office; the branch does not handle any of the money.

Example 1. The Ceylon Tea Plantation Co., Ltd., remits to its foreign manager exchange for £10,000 in rupees at 1s. 3d. At the end of the month the manager makes the following Return of his cash expenditure—

	Rs.
Plantation Wages (planting) . . .	21,400
,, ,, (manufacturing) . .	5,000
Salaries	2,000
Hospital Expenses	500
Machinery and Plant	40,000
Buildings, etc.	50,000
Rates and Taxes	500
General Expenses	600
Tools and Implements	30,000
Coolie Brokerage and Passage Money .	10,000
Rs.	160,000

You are required to show the records in the foreign books, and also in the Head Office books.

In Foreign Books

CASH BOOK

Dr.					*Cr.*
19..		Rupees[1]	19..		Rupees
Jan.	To London Office .	160,000	Jan.	By Planting Wages	21,400
				„ Manufg. Wages	5,000
				„ Salaries . .	2,000
				„ Hospital Expenses .	500
				„ Machinery and Plant . .	40,000
				„ Buildings .	50,000
				„ Rates and Taxes	500
				„ General Expenses .	600
				„ Tools and Implements .	30,000
				„ Coolie Brokerage and Passage Money .	10,000

[1] Indian Currency

LEDGER

LONDON OFFICE

Dr.					*Cr.*
			19..		Rupees.
			Jan.	By Cash	160,000

In Head Office Books

CEYLON JOURNAL

		Dr.	*Cr.*
19..		Rupees	Rupees
Jan. 31	Planting Wages	21,400	
	Manufacturing Wages	5,000	
	Salaries	2,000	
	Hospital Expenses	500	
	Machinery and Plant	40,000	
	Buildings	50,000	
	Rates and Taxes	500	
	General Expenses	600	
	Tools and Implements	30,000	
	Coolie Brokerage and Passage Money . . .	10,000	
	To Plantation Cash A/c . . . . . for sundry disbursements during the month		160,000

FLUCTUATING PAPER CURRENCY

Depreciated Paper Currency. Hitherto, only metallic currencies have been dealt with whose exchange fluctuations could be treated satisfactorily by taking the average rate for the year or trading period. It is now proposed to consider the case of countries

where the legal tender is a greatly depreciated paper currency, whose sterling equivalent is subject to violent changes, e.g. the paper peso (dollar) of Chile and Peru. So long as a paper currency is readily convertible into gold, it retains its face value. When it is inconvertible, it will retain its value only so long as its issue is strictly limited to actual business requirements. But the moment an inconvertible paper currency becomes over-issued, the trading community cannot absorb it, and forthwith a heavy depreciation sets in.

How British Book-keeping is Affected. The connexion of British book-keeping with such matters arises from the fact that many British companies are formed and registered in London, which have often only their head office in London, the business or works being situated in one of these South American republics. The company's capital is raised in sterling and the results of the company's operations have naturally to be presented to the shareholders in sterling. Thus, to such companies, the question of fluctuating exchange and its proper treatment in the accounts is an all-important one.

Rates of Exchange and Procedure in the Books. The aim of the book-keeping procedure of the London Office is to record the result of the foreign transactions in their approximate sterling equivalent. It is not possible to ascertain the exact £ s. d. value, for there is no fixed ratio of gold to silver. The exchange value of silver coins depends on the market price of silver, which is itself affected by the law of supply and demand. Owing to the incessant and violent fluctuations in the rate of exchange, the average rate for the year will not give satisfactory results. When the business is transacted or the work executed, the value of the dollar may be 9d.; when payment is received, it may be 10½d.; when the bank balance admits of a remittance (possibly containing the profit on such business or work) being made to the London Office, the rate may have risen to 12d. or have dropped to 8d., the value of the paper peso (i.e. dollar) varying from day to day and even from hour to hour. The only satisfactory way of dealing with such variations is to take the average rate of exchange for short periods, say, each month. This will suffice for all revenue transactions, and also for capital expenditure in the form of wages on capital account expended continuously throughout the month. Capital expenditure in the shape of fixed assets will, of course, be converted at the rate ruling on the date the assets were purchased, so that they may appear in the books at their approximate sterling cost. In the Branch books, all capital expenditure is transferred at balancing time to the London Office Account. The Branch Balance Sheet thus shows only the floating assets and liabilities, which are valued at the current rate of exchange on the date of such Balance Sheet. The difference between the floating assets and liabilities is represented by the balance of the London Office Account, which is converted

into sterling at the same rate. Remittances are made to the Head Office usually by means of sterling bills on London. In the foreign books, the London Office Account will contain a memorandum *sterling* column; and, in the head office books, the Branch Office Account will be provided with a memorandum *currency* column. At balancing time, any difference between the *Dr.* and *Cr.* sides of the memorandum columns is written off as profit or loss on exchange.

QUESTIONS

1. Explain the method of keeping the accounts in the case of a Head Office, say in London, owning a foreign mine or plantation. Submit specimens of any special rulings of books that might be necessary.
2. Name and explain some of the principal forms of foreign remittances.
3. How are transactions in currency dealt with in books of account kept in sterling? Give examples.
4. Explain the method of converting accounts kept in a fluctuating paper currency into sterling.
5. How is Capital Expenditure at the branch dealt with (*a*) in the foreign books, (*b*) in the London Office books?
6. How are remittances from the branch to the Head Office dealt with (*a*) in the foreign books, (*b*) in the London books?

EXERCISE XIV

1. On 1st March, a branch establishment was opened and £950 worth of goods was transferred thereto from stock. Show the Ledger accounts recording this transaction.

2. From the following particulars prepare the Branch Account as it would appear in the Head Office books. The Branch sales are exclusively cash, and the goods sent to the Branch have been invoiced at cost price—

	£	*s.*	*d.*
Goods from Head Office	5,508	15	4
Returns to Head Office	42	10	9
Rates, Taxes, and Insurance paid	65	11	9
Wages paid	362	5	8
Cash remitted to Head Office	6,871	16	8
Stock, 1st Jan.	816	10	2
Rent paid	140	10	6
Stock, 31st Dec.	795	15	4
Sundry Expenses paid	81	4	3

3. From the particulars furnished hereunder, write up the Branch Account in the Head Office books. The Branch Sales are exclusively cash, and the goods sent to the Branch have been invoiced at $33\frac{1}{3}$ per cent on cost—

	£	*s.*	*d.*
Goods sent to Branch *less* Returns	6,841	19	4
Wages and Salaries paid	372	6	9
Cash remitted by Branch	6,855	–	8
Stock, 1st Jan.	920	16	8
Rates, Taxes, and Insurance paid	80	10	4
Rent paid	145	15	6
Stock, 31st Dec.	895	15	4
Sundry Expenses paid	39	14	11

Show, in connexion with the above exercise, (*a*) the advantage of double money columns, (*b*) how the books are reconciled when the Branch Account is written up from the above figures exactly as they stand.

4. From the particulars given below, draw up the Branch Account or Accounts in the Head Office books. The goods sent to the Branch have been invoiced at cost, and the Branch makes both cash and credit sales—

	£	s.	d.
Goods received from Head Office	2,517	16	8
Returns to Head Office	42	–	–
Stock, 1st Jan.	625	13	4
Ready Money Sales	1,608	11	5
Six months' Credit Sales to 30th June	2,976	14	2
Allowances to Customers	13	8	11
Discounts Allowed to Customers	132	5	6
Bad Debts	218	6	3
Rent, Rates, and Taxes	108	12	7
Returns from Customers	28	11	4
Wages and Salaries	294	6	8
Debtors, 1st Jan.	1,475	9	10
Stock, 30th June	595	15	6
Sundry Expenses	63	12	5
Cash received on Ledger Accounts	2,516	14	2
Debtors, 30th June	1,542	17	10

5. From the undermentioned particulars construct the Branch Accounts as they would appear in the Head Office books. The Branches are charged with the goods at selling price, the sales being exclusively cash. The rate of gross profit is 25 per cent on selling price.

	Branch A £	s.	d.	Branch B £	s.	d.
Goods from Head Office	9,846	12	4	10,408	15	8
Returns to Head Office	28	9	4	46	11	8
Sales by Branch	9,662	2	–	10,183	8	8
Stock, 1st Jan.	1,338	3	4	1,672	12	4
Stock, 31st Dec.	1,476	12	4	1,814	12	8
Allowances off Selling Price	29	16	8	26	10	4
Sundry Expenses	80	12	4	139	16	5
Salaries and Wages	248	15	6	318	13	2
Depreciation of Furniture and Fixtures	24	13	9	35	17	1
Rent, Rates, and Taxes	250	16	8	296	14	8
Excess in Stock at close	12	4	8	—		
Shortage in Stock at close	—			10	4	8

6. The Stock on 1st March was £3,027 16s. 11d. The Sales for the month of March amounted to £1,543 10s. 9d., and the Returns Outwards were £28 9s. 1d. The Purchases for the month of March were £892 19s. 6d., while the Returns Inwards amounted to £37 15s. 4d. The rate of gross profit is 20 per cent on Sales. Show by means of an account how to arrive at the approximate value of the Stock at the end of March.

7. From the undermentioned particulars relating to a Head Office and its two wholesale Branches, prepare final accounts and Balance Sheet as they would appear in the Head Office books—

	Head Office £	s.	d.	Liverpool Branch £	s.	d.	Reading Branch £	s.	d.
Stock, 1st Jan.	—			4,807	13	9	3,946	15	7
Debtors	—			16,915	11	7	13,482	9	10
Creditors	8,216	15	9	—			—		
Discounts Earned	—			513	15	8	398	16	2
Bad Debts	—			607	14	9	550	18	6
Bills Payable	2,514	11	2	—			—		

	Head Office £	s.	d.	Liverpool Branch £	s.	d.	Reading Branch £	s.	d.
Purchases *less* Returns	—			11,918	14	4	9,867	13	9
Furniture, Fixtures, and Fittings	157	13	2	365	16	2	225	15	8
Horses, Harness, Vehicles, etc.	—			1,956	13	8	1,698	12	11
Salaries	987	16	2	—			—		
Cash at Bank	8,916	9	3	—			—		
Share Capital (22,000 Shares of £1 each, fully paid)	22,000	-	-	—			—		
Travellers' Salaries and Expenses	—			1,814	5	10	1,328	13	7
Directors' Fees	450	10	6	—			—		
Sales *less* Returns	—			26,156	18	3	21,546	15	10
Wages	—			2,386	18	4	1,846	15	9
Interim Dividend 10%	2,200	-	-	—			—		
Stock, 31st Dec.	—			5,016	14	8	4,028	11	5
Debenture Interest	600	-	-	—			—		
Reserve Fund Account	7,500	-	-	—			—		
Discounts Allowed	—			1,605	10	2	1,572	14	8
6% Debentures	10,000	-	-	—			—		
Carriage Inwards	—			509	12	8	457	11	6
Depreciation	17	10	4	40	12	11	25	1	9
Sundry Expenses	—			3,017	14	11	2,856	11	5
Rent, Rates, and Taxes	287	14	6	382	10	6	298	10	6
Horse and Stable Expenses	—			327	3	7	246	9	10
Cash in hand	39	16	7	72	19	5	55	14	6

Provision for Bad Debts, 5% Debtors.

8. From the following condensed Trial Balance prepare amalgamated Balance Sheet as at 31st Dec.

HEAD OFFICE TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Sundry Assets	12,317	4	2			
Sundry Creditors				3,017	15	6
Capital Account				12,000	-	-
Branch Current A/c (£250 of this is for Goods sent on 31st Dec.)	3,960	11	4			
Remittances from Branch				1,260	-	-
	£16,277	15	6	£16,277	15	6

BRANCH TRIAL BALANCE

31st Dec., 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Sundry Assets	2,847	10	9			
Sundry Creditors				456	19	5
Head Office Current A/c				3,710	11	4
Remittances to Head Office (£60 of this represents a Remittance made on 31st Dec.)	1,320	-	-			
	£4,167	10	9	£4,167	10	9

9. From the following Trial Balance of the Branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch Ledger and also in the Head Office Ledger.

BRANCH TRIAL BALANCE

31st Dec., 19..	Dr. £	s.	d.	Cr. £	s.	d.
Horses and Carts	256	14	2			
Furniture and Fixtures	75	18	9			
Sundry Debtors	847	13	5			
Sundry Creditors				154	12	6
Stock, 1st Jan.	675	11	2			
Purchases from Head Office	2,916	16	7			
Sales				4,462	16	8
Discounts Earned				10	14	11
Rent, Rates, and Taxes	92	15	3			
Sundry Expenses	65	11	7			
Depreciation	30	14	5			
Head Office Account				3,516	16	6
Cash in hand	187	5	10			
Carriage Inwards	84	7	9			
Wages and Salaries	428	13	11			
Bad Debts	35	18	5			
Remittances to Head Office	2,360	–	–			
Discounts Allowed	86	19	4			
	£8,145	–	7	£8,145	–	7
Stock, 31st Dec., £710 15s. 8d.						

10. Three partners, F. Finch, G. Green, and R. Roberts, have Branch businesses working independently in London, Edinburgh, and Dublin. F. Finch manages the London business and receives two-thirds of the profits therefrom, the balance being shared equally between Green and Roberts. Green manages the Edinburgh business, receiving half of the profits therefrom, the balance being shared equally between Finch and Roberts. Roberts manages the Dublin business, receiving one-third of the profits therefrom, the balance being shared equally between Finch and Green. The branches buy from, and sell to, one another at a small inter-branch profit.

From the following Trial Balance draw up a Tabular Trading and Profit and Loss Account, and a Balance Sheet in (*a*) columnar form, (*b*) ordinary form. Credit each partner with interest on Capital at 5 per cent per annum, and depreciate Plant and Machinery at the rate of 10 per cent per annum. Show also the partners' Capital Accounts, and the Branch Current Accounts in the respective Branch ledgers.

LONDON TRIAL BALANCE

31st Dec., 19..	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	5,616	11	5			
Cash in hand	216	18	7			
Cash at Bank	7,808	10	6			
Current Accounts—						
Edinburgh	2,386	14	5			
Dublin	2,017	18	9			
Stock, 1st Jan.	6,174	10	7			
Sundry Debtors	12,206	13	4			
Sundry Creditors				8,165	19	10
Purchases	37,856	19	5			
,, from Branches	3,047	8	10			
Sales				54,719	11	8
,, to Branches				4,028	16	8
Capital Account, F. Finch				20,646	15	7
Drawing Account, F. Finch	3,000	–	–			
Trade Expenses	197	14	11			
Wages	3,814	3	9			
Discounts Allowed	627	16	8			
Discounts Earned				497	13	10
Printing and Stationery	256	17	5			
Advertising	297	12	3			
Carriage Inwards	564	13	8			
,, Outwards	925	14	9			
Salaries	732	19	11			
Bad Debts	308	18	5			
	£88,058	17	7	£88,058	17	7
Stock, 31st Dec., £6,285 11s. 3d.						

EDINBURGH TRIAL BALANCE

31st Dec., 19..	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	4,406	11	10			
Cash in hand	115	9	7			
Cash at Bank	5,219	12	6			
Current Accounts—London				2,386	14	5
Dublin	1,027	12	8			
Stock, 1st Jan.	4,629	15	4			
Sundry Debtors	9,847	13	6			
Sundry Creditors				5,028	17	11
Purchases	29,085	17	2			
,, from Branches	2,875	14	9			
Sales				40,207	13	6
,, to Branches				3,318	15	9
Capital Account, G. Green				14,172	10	5
Drawing Account, G. Green	2,500	–	–			
Trade Expenses	134	13	7			
Wages	2,675	11	5			
Discounts Allowed	457	9	8			
Discounts Earned				384	13	6
Printing and Stationery	229	16	5			
Advertising	236	18	9			
Carriage Inwards	425	9	10			
Carriage Outwards	814	4	11			
Salaries	596	18	4			
Bad Debts	219	15	3			
	£65,499	5	6	£65,499	5	6
Stock, 31st Dec., £4,752 18s. 6d.						

DUBLIN TRIAL BALANCE

31st Dec., 19..	Dr. £	s.	d.	Cr. £	s.	d.
Plant and Machinery	3,417	15	2			
Cash in hand	89	11	8			
Cash at Bank	4,723	16	7			
Current Accounts—London				2,017	18	9
Edinburgh				1,027	12	8
Stock, 1st Jan.	3,852	19	4			
Sundry Debtors	8,806	14	5			
Sundry Creditors				3,351	3	5
Purchases	24,678	10	2			
,, from Branches	2,359	11	6			
Sales				34,447	16	9
,, to Branches				3,028	5	10
Capital Account, R. Roberts				10,276	14	3
Drawing Account, R. Roberts	2,000	–	–			
Trade Expenses	86	18	4			
Wages	2,075	16	3			
Discounts Allowed	357	9	10			
Discounts Earned				307	10	6
Printing and Stationery	126	17	5			
Advertising	195	6	4			
Carriage Inwards	397	11	7			
,, Outwards	692	15	8			
Salaries	438	14	2			
Bad Debts	156	13	9			
	£54,457	2	2	£54,457	2	2
Stock, 31st Dec., £3,972 16s. 4d.						

11. The London and Westminster Grocery Co., Ltd., has a retail Branch in Manchester which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system.

From the undermentioned particulars supplied by the Branch manager, show how the Branch accounts would appear in the Head Office books, and prepare a Profit and Loss Account for the Branch shop for the six months to 31st Dec.—

Six months' Credit Sales	£2,387	Debtors, July 1st	£1,227
Returns Inwards	20	Goods received from Head Office	2,178
Cash received on Ledger A/cs	2,384	Rent, Taxes, etc., paid	375
Cash Sales	1,214	Wages and Sundry Expenses paid	396
Stock, July 1st	720		
Stock, Dec. 31st	1,121		

(*London Chamber of Commerce.*)

12. Four partners, A, B, C, and D, have businesses working independently in London, Swansea, and Glasgow. A and B manage the London branch, each receiving one-third of the profits from the London business, the balance being shared equally between C and D.

C manages the Swansea house, receiving half of the profits from the business there, the balance being shared equally between A, B, and D.

D manages the Glasgow business, receiving one-third of the profits arising therefrom, the balance being shared equally between A, B, and C.

At the end of each year a combined statement is prepared showing the general position of the firm and the condition of each partner's account.

From the following separate statements make up the combined account (without interest) and also the general Balance Sheet of the firm.

LONDON HOUSE

Creditors	£15,000	Debtors	£23,000
Swansea House	3,000	Glasgow House	2,000
A's Capital	10,000	Stock	13,000
B's do.	10,000	A's Drawings	1,000
Profit and Loss	9,000	B's do.	1,000
		Cash	7,000
	£47,000		£47,000

SWANSEA HOUSE

Creditors	£9,000	Debtors	£11,000
Glasgow House	4,000	London House	3,000
C's Capital	5,000	Stock	3,000
Profit and Loss	6,000	C's Drawings	1,000
		Cash	6,000
	£24,000		£24,000

GLASGOW HOUSE

Creditors	£7,500	Debtors	£9,000
London House	2,000	Swansea House	4,000
D's Capital	5,000	Stock	5,000
Profit and Loss	7,200	D's Drawings	500
		Cash	3,200
	£21,700		£21,700

(*Chartered Accountants.*)

13. Messrs. J. Silkstone & Sons, coal merchants, of London, opened a Branch business at Maidstone, on 1st January. The Trial Balance of the books of the Maidstone Branch, as on 31st December, was as follows—

TRIAL BALANCE

Head Office Adjustment A/c		£1,574
Coal Sales		1,750
Sundry Debtors	£640	
Horses, Carts, etc.	280	
Salaries, Rent, and Expenses	620	
Cash in Hand	78	
Coal from Head Office (as invoiced)	1,748	
Sundry Creditors		42
	£3,366	£3,366

The stock of coal at Maidstone on 31st December was valued at £984.

Prepare a Profit and Loss A/c showing the result of the working of the Maidstone Branch for the year ended 31st December, and draft the entries necessary to incorporate the above figures in the Head Office books. (*London Chamber of Commerce.*)

14. B. J. R. & Co. are the owners of a business, working upon the multiple shop system. No Branch is allowed to purchase any stock, and can only make payments in cash through their petty cash account, which is replenished weekly upon the "imprest system." All receipts are paid daily into the local bank, upon which the Head Office alone can draw.

Upon what basis should goods be stocked out to the Branches?

Explain briefly the records which the Head Office books would show in the case of each Branch. (*Royal Society of Arts.*)

15. Messrs. Baxter & Sons, whose head office is in London, remitted £500 to their Manchester Branch on 30th December. The books of the Head Office and the Branch are balanced as on 31st December each year. The above-mentioned remittance did not reach Manchester until the morning of 1st January. How would you deal with the amount in question in the Trial Balances of the Head Office and Branch and when preparing the combined Balance Sheet of the whole business? (*London Chamber of Commerce.*)

16. The Head Office of the Surrey Dairies, Ltd., supplied their Branches for 6 months ended 31st Dec., with the following goods, and paid cash on their account as under—

Branch	K	P	Q
	£	£	£
Goods to Depots	700	600	900
Returns from Depots	10	9	21
Rates and Taxes paid by Head Office	31	29	40
Wages and Expenses paid by Head Office	39	40	45
The Depot Sales were	1,000	900	1,350
Returns from customers were	50	36	60
Depots collected cash from customers and despatched same to Head Office	850	720	1,200
The stocks on hand at 31st Dec. were	100	120	110

Frame the proper Journal entries to record the above transactions in the Head Office books, and

Write up in the Head Office Ledger the accounts necessary to show the profit or loss made by each Branch and the balance due at each Branch from Sundry Debtors. (*Civil Service.*)

17. The Manufacturing Co., Ltd., has a Nominal Capital of 15,000 shares of £10 each; and a Subscribed Capital of 8,000 shares, fully paid up. It manufactures goods for sale at its two Branches, A and B, which sell no goods other

than those of the Company's manufacture. From the Trial Balance, on next page, extracted from the books of the Head Office and Branches as on 31st Dec., prepare, for submission to the Directors, Trading and Profit and Loss Accounts for the Head Office and for each of the Branches for the year ended 31st December, and a Balance Sheet of the Company as a whole as on that date.

Stocks on hand valued as on 31st December were—

Head Office	£10,527	4	5
Branch A	3,024	12	1
do. B	1,927	9	4

Write off the following depreciations—

Head Office Plant and Machinery			10%
Furniture and Fixtures—		Head Office	5%
do.	do.	Branch A	5%
do.	do.	Branch B	5%

Create a provision for Bad Debts of 2½% on the Sundry Debtors. Write off £5,000 from Goodwill and carry £10,000 to Reserve. All carriage on the goods sent to the Branches is paid by the Head Office. (*Royal Society of Arts.*)

18. The X Y Z Manufacturing Co., Ltd., has a Share Capital of £75,000, in 7,500 shares of £10 each, all issued and fully paid. It manufactures goods for sale at its two Branches (here referred to as A and B respectively), which sell goods of the Company's manufacture only. From the annexed Trial Balance of the books at the Head Office (where the Private or General Books are kept) and at the Factory and Branches (see pp. 492–3), construct an account to show, respectively, the result of the Manufacturing and the Gross Profit at each Branch.

NOTES. The Stocks on the 31st December were—

Factory	£9,177	5	7
Branch A	4,590	3	8
,, B	1,922	5	5

Allow depreciation for one year to 31st December on the following items of the 1st January at the rates indicated—

Factory Machinery, etc.	10 per cent.
Branch Fixtures, etc.	5 ,,

(No depreciation to be written off Head Office Furniture, etc.)

Draw up for submission to the Directors a Balance Sheet of the X Y Z Manufacturing Co., Ltd., on the basis of the figures given, also to show as regards each item, its amount at the several places separately, and for the business as a whole. The balance at credit of the Profit and Loss Account was £13,033 6s. 5d., including the amount brought from the preceding year. (*Chartered Accountants.*)

19. The United Kingdom Trading Co., Ltd., has Branches at Dundee and Dover with Head Office at York. No trading is done at the Head Office. The Branches each keep a separate set of books which contain a complete record of their trading. The Capital Accounts and Bank Account are kept in another set of books at Head Office, the Branches being supplied with working capital from Head Office. From the following Trial Balances supplied by the Branches, and the Trial Balance of the Head Office books, prepare a Trading Account, showing the trading result of each branch, also a general Profit and Loss Account for the year ending 31st March and the Balance Sheet of the Company.

Provide for Bad and Doubtful Debts, £250.
Provide for Discount, 2½% on Debtors.
Wages owing, £125.
Stock, at 31st March, £2,960 17s. 9d.
Credit Southern Branch, 2½% allowance on £1,850.
Depreciation of Plant, 7½% on £3,500 to be charged in Branch Trading A/c.

EXERCISE 17 (*contd.*)

THE MANUFACTURING COMPANY, LIMITED

TRIAL BALANCE—31ST DEC., 19..

Dr.

	Head Office £	s.	d.	Branch A £	s.	d.	Branch B £	s.	d.
Freehold Premises—									
Head Office	.0,000	–	–						
Branch A	10,000	–	–						
Branch B	10,000	–	–						
Goodwill	30,000	–	–						
Plant and Machinery Head Office	8,000	–	–						
Furniture and Fixtures—									
Head Office	500	–	–						
Branch A	700	–	–						
Branch B	800	–	–						
Cash at Bank	6,790	1	6						
Cash in hand	14	7	2	83	2	9	38	9	5
Stock in hand, 1st Jan.	11,245	5	1	2,812	3	7	1,994	17	6
Purchases (less Returns)	65,090	5	11						
Wages	39,651	1	11	2,419	–	–	2,622	3	4
Salaries	1,500	–	–	247	14	4	276	6	6
Carriage to Branches	1,516	14	7						
Rates and Taxes	323	2	9	442	6	7	328	14	4
General Expenses	517	9	2	2,016	4	6	1,796	6	8
Goods from Head Office				94,167	2	3	44,267	–	2
Bad Debts				1,552	8	2	746	17	11
Sundry Debtors				9,620	2	9	5,370	3	2
Income Tax [1]	447	10	8						
Directors' Fees [1]	1,000	–	–						
Audit Fee [1]	105	–	–						
Branch A Current A/c	301	18	3						
Branch B do.	3,353	–	8						
	£231,855	17	8	£113,360	4	11	£57,440	19	–

Cr.

	Head Office £	s.	d.	Branch A £	s.	d.	Branch B £	s.	d.
Share Capital	80,000	–	–						
Sundry Creditors	11,247	13	2	541	6	6	547	12	1
Goods to Branch A	94,167	2	3						
Do. do. B	44,267	–	2						
Sales (less Returns)				112,517	–	2	53,540	6	3
Profit and Loss A/c (balance)	2,174	2	1						
Head Office Current A/c				301	18	3	3,353	–	8
	£231,855	17	8	£113,360	4	11	£57,440	19	–

[1] *No* apportionment of these items need be made.

EXERCISE 19 (*contd.*)

NORTHERN BRANCH

TRIAL BALANCE—31st March, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Head Office A/c (Amount due for Working Capital)				2,663	5	4
Trading Account, Stock, 1st April	2,879	2	3			
Purchases	8,368	4	5			
Sales				15,872	13	6
Trade Expenses	754	10	–			
Wages	3,370	13	4			
Salaries	290	–	–			
Rates, Rent, and Taxes	455	—	–			
Debtors	3,784	–	6			
Creditors				1,533	17	11
Discount A/c	67	15	10			
Returns and Allowances	100	10	5			
	£20,069	16	9	£20,069	16	9

SOUTHERN BRANCH

TRIAL BALANCE—31st March, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Head Office A/c (Amount due for Working Capital)				2,151	8	9
Trading A/c, Stock, 1st April	1,397	14	6			
Purchases	3,512	18	9			
Sales				8,806	12	2
Trade Expenses	474	2	8			
Wages	2,860	1	7			
Rent, Rates, and Taxes	274	3	6			
Debtors	2,960	7	2			
Creditors				662	4	9
Discount A/c				34	2	6
Salaries	175	–	–			
	£11,654	8	2	£11,654	8	2

Provide for Discount 2½% on Debtors.
Provide for Bad Debts, £125.
Expenses owing, £75.
Stock on 31st March, £1,564 10s. 2d.
Debit Northern Branch, 2½% allowance on £1,850.
Depreciation of Plant, 7½% on £2,500 to be charged in Branch Trading A/c.

EXERCISE 18 (*contd.*)

Dr. TRIAL BALANCE,

	Head Office			Factory			Branch A			Branch B		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Freehold Premises—												
Factory	50,000	–	–									
Branch A	10,000	–	–									
Branch B	10,000	–	–									
Goodwill	30,000	–	–									
Machinery, Fixtures, Furniture, etc., as at 1st January—												
Head Office	500	–	–									
Factory	7,500	–	–									
Branch A	2,000	–	–									
Branch B	1,500	–	–									
Bankers	6,790	1	6									
Cash Balance	16	2	6	135	9	2	89	3	2	58	1	8
Stocks (1st Jan.)				10,216	5	9	3,218	1	6	2,190	6	7
Purchases (Net)				76,516	2	9						
Wages				41,316	2	8						
Factory Manager's Salary				1,000	–	–						
Salaries and Wages							3,516	9	6	3,022	3	4
Carriage to Branches				2,517	6	9						
Rates and Taxes				316	2	9	569	7	6	452	9	2
Salaries and Office Expenses	3,519	6	8									
Sundry Expenses				517	6	8	3,017	9	2	1,869	4	6
Goods from Factory							75,267	3	2	45,350	–	2
Bad Debts							679	8	1	1,029	2	2
Debtors							9,620	2	9	5,730	2	3
Factory (Current Account)	2,333	1	11									
Branch B ,, ,,	3,672	3	10									
Head Office ,, ,,							4,914	3	3			
Income Tax	650	–	–									
Directors' Fees	1,500	–	–									
Auditors' Fees	105	–	–									
Debenture Interest	2,000	–	–									
	£132,085	16	5	£132,534	16	6	£100,891	8	1	£59,701	9	10

31st December, 19.. *Cr.*

	Head Office			Factory			Branch A			Branch B		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Share Capital	75,000	–	–									
Debentures Four per cent	50,000	–	–									
Creditors	550	10	–	9,584	11	3	176	7	6	359	2	6
Goods to Branch A				75,267	3	2						
,, ,, B				45,350	–	2						
Sales							100,715	–	7	55,670	3	6
Profit and Loss A/c (Balance of previous years' Profit)	1,621	3	2									
Head Office (Current Account)				2,333	1	11				3,672	3	10
Branch A (Current Account)	4,914	3	3									
	£132,085	16	5	£132,534	16	6	£100,891	8	1	£59,701	9	10

EXERCISE 19 (*contd.*)

HEAD OFFICE
TRIAL BALANCE—31st March, 19..

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital Issued, 13,000 Shares of £1 each				13,000	–	–
Calls in arrear	245	–	–			
4½% Debenture Stock				5,000	–	–
Plant & Machinery, Northern Branch	3,500	–	–			
,, ,, Southern ,,	2,500	–	–			
Goodwill, Northern Branch	3,000	–	–			
,, Southern ,,	2,500	–	–			
Bank	2,661	11	9			
Expenses (Head Office)	460	9	2			
Reserve Fund A/c				4,000	–	–
Profit and Loss A/c				500	–	–
£3,000 2½% Consols @ 80% (Reserve Fund Investment)	2,400	–	–			
Rent, Rates, Taxes, and Insurance	249	10	–			
Northern Branch A/c	2,663	5	4			
Southern ,,	2,151	8	9			
Debenture Interest A/c (paid to 30th Sept. last)	112	10	–			
Bank Charges	56	5	–			
	£22,500	–	–	£22,500	–	–

Expenses owing, £55. Interest due on Consols, 3 mos. less Tax @ 5s. Directors' Fees owing, £750. Prepaid Rates, £32. (*West Riding of Yorkshire.*)

20. A Company, having its Head Office in London, owns a factory in South Africa. During the year £10,000 in cash has been remitted from London to the factory, and bills for £5,000, drawn by the manager in South Africa on the Head Office, have been accepted. At the end of the year it is found that there has been a loss on the working of the factory of £2,000, which is transferred to Head Office. Show entries in Head Office books. (*Chartered Accountants.*)

21. A Limited Company has its Head Office in London, and a number of retail shops in various towns, to which all goods are invoiced from the Head Office at selling prices. What system would you recommend for dealing with these Branches, and how would the stocks at the Branches appear in the Balance Sheet of the Company? Give a *pro forma* example, stating the class of business you select for the purpose. (*Chartered Accountants.*)

22. The Southern Confectionery Co., Ltd., London, has a Branch at Bristol. Goods are invoiced to the Bristol Branch at selling prices, being cost plus 25 per cent. The Bristol Branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London. From the following details prepare a Profit and Loss Account of the Bristol Branch for the year.

Stock, 1st Jan. (at invoice prices)	£1,250	Cash received for Ledger A/cs	£3,300
Stock, 31st Dec. (at invoice prices)	1,500	Goods invoiced from London	9,100
Sundry Debtors, 1st Jan.	700	Rent and Rates (paid from London)	400
Sundry Debtors, 31st Dec.	900	Wages (paid from London)	340
Cash Sales for the year	5,400	Sundry Expenses (paid from London)	80
Credit Sales for the year	3,500		

(*Chartered Accountants.*)

CHAPTER XV

COMPANIES

SECTION (A)

INTRODUCTION, FORMATION, CAPITAL, SHARES, STATUTORY AND STATISTICAL BOOKS

INTRODUCTION

Definition. A company is a legal person or entity created by the association of a number of persons in accordance with the law, for the purpose of a defined object.

The formation of companies in England, for trading and other purposes, dates back for more than three centuries. We see some notable examples in the seventeenth century in the East India Company, the Hudson's Bay Company, the New River Company, and the Bank of England, which were incorporated by Royal Charter or by special Acts of Parliament. Incorporation otherwise than by these two methods was not possible until 1844; while the principle of "limited liability" was not recognized till 1855. The Act of 1862 opened up a new era in the history of companies, and there was further important legislation in 1908. The whole of the statute law relating to companies was consolidated by the Companies Act, 1929, which governed companies in Great Britain until the Companies Act, 1947, revised the law. The Companies Act, 1948, which consolidated the 1929 and 1947 Acts, now governs companies in Great Britain.

Prohibition of Large Partnerships. Companies not incorporated are, in the eyes of the law, nothing more than private partnerships. No partnership consisting of more than *ten* persons can be formed to carry on the business of banking, and no partnership consisting of more than *twenty* persons can be formed for the purpose of carrying on any other business which has for its object the acquisition of gain, without being registered as a company.

Kinds of Companies. There are three kinds of companies which may be constituted and incorporated under the Companies Act—

1. **Company Limited by Shares.** This is a company having the liability of its members limited by the Memorandum to the amount, if any, unpaid on the shares respectively held by them. Once the capital is fully paid up, there is no further liability resting

on the shareholder. The majority of companies incorporated to-day are companies limited by shares, and it is proposed therefore to deal mainly with such companies.

2. **Company Limited by Guarantee.** This is a company having the liability of its members limited by the Memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up. There are only a few companies of this class in existence.

3. **Unlimited Company.** This is a company not having any limit on the liability of its members. Every shareholder is liable for the debts of the company as in an ordinary partnership. Such a company possesses, however, two advantages: (*a*) The liability of each member ceases at the end of a year from the time he ceases to be a member; (*b*) the shares of the company are transferable. Such companies are now extremely rare.

Number of Persons. The legal minimum number of persons that can form a public company is seven, or in the case of a private company, two. The maximum number of members for a private company is fifty, and for a public company the maximum can never exceed the number of shares, as each member must, by law, take not less than one share. If a company carries on business for more than six months after the number of its members has been reduced below seven, or two, as the case may be, every member cognizant of the fact is personally liable for the whole of the debts of the company contracted after the period of six months.

Public Company. A public company is any company which is not a private company and is therefore free to offer its shares to the public for subscription.

One Man Company. This is a term applied to a company in which almost the whole of the shares are held by one person, the remainder being allotted to nominees (or a nominee) in order to make up the minimum number of members. This is generally the case where a successful business has been converted into a company in order to gain the advantages of incorporation, namely the continuance of the business after the death of any of the parties interested in it, the power of transferring the shares in order to introduce fresh members, and the increased facility of borrowing money.

Private Company. By Section 28 of the Companies Act, 1948, a private company is one which by its Articles—

1. Restricts the right to transfer its shares.
2. Limits the number of its members (exclusive of persons who are in the employment of the company and ex-employees) to fifty.

Where two or more persons hold one or more shares jointly, they

are, for the purposes of this section of the Act, to be treated as a single member.

3. Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

Unless the Memorandum or Articles expressly forbid it, a private company may turn itself into a public company by passing a special resolution, and filing with the registrar of companies the prescribed statement in lieu of prospectus, together with the prescribed statutory declaration.

Advantages of a Private Company. A private company is exempt from several of the obligations and restrictions imposed on a public company—

(1) The minimum number of members may be two instead of seven. (Section 1, Companies Act, 1948.)

(2) It is not obliged to file a statement in lieu of a prospectus. (Section 48 (3) .)

(3) The restrictions put upon the commencement of business, namely, the obtaining of the minimum subscription, waiting for the certificate entitling it to commence, etc., do not apply. (Section 109 (7).)

(4) The restrictions placed on the allotment of shares (Section 48 (3)), and on the appointment of directors (Section 181 (5)) do not apply.

(5) It is not obliged to hold a statutory meeting or forward to the members, or to file with the registrar of companies, the statutory report. (Section 130.)

Exempt Private Company. Before the Companies Act, 1948, came into force private companies were not required to include a copy of their accounts in the Annual Return filed with the Registrar of Companies. Since 1st July, 1948, however, all companies whether private or public must include in the Annual Return a copy of the last Balance Sheet and Profit and Loss Account, the Auditors' Report and the Directors' Report.

It was recognized that hardship might ensue if small family businesses had to disclose their accounts and a class of exempt companies was created.

An exempt private company is defined by Section 129 and the 7th Schedule to the Companies Act, 1948, as a private company which has satisfied the following conditions at all times since 1st July, 1948, or the incorporation of the company, whichever is the later—

1. (*a*). No body corporate is the holder of any shares or debentures; and

(*b*). No person other than the holder has any interest in any of the shares or debentures.

2. The number of persons holding debentures of the company is not more than 50.

3. No body corporate is a director and neither the company nor any director is privy to any arrangement whereby the policy of the company is capable of being determined other than by the directors,

members and debenture holders or trustees for the debenture holders.

There are a number of exceptions to the *first condition* which may briefly be summarized as follows—

(i) Normal dealings of a business nature—e.g. where shares are charged to a finance company as security for a loan or where there is a contract for the transfer of shares so that two persons are temporarily interested in the shares.

(ii) Death and family settlements—e.g. shares comprised in the estate of a deceased member or shares forming part of a marriage settlement.

(iii) Disability—e.g. where a person is of unsound mind and the share vests in his administrator.

(iv) Trusts for employees, i.e. shares or debentures held by trustees for the benefit of employees (including a director holding a salaried employment).

(v) Shares held by an Exempt Private Company. This exception applies to part (*a*) only of the first condition and is subject to a condition that the total number of persons holding shares in both companies must not exceed 50 (disregarding employees who hold shares).

(vi) Banking or Finance Company providing capital. Part (*a*) of the first condition is subject to an exception for shares held by a nominee of such company provided such company cannot exercise more than one-fifth of the total voting power at a general meeting.

(vii) Bankruptcies, Liquidations, etc., where shares in the company form part of the estate or any trust for, or composition with, creditors.

Difference between a Limited Company and an Ordinary (Unlimited) Partnership. The following differences should be carefully noted—

(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can proceed only against the property of the company in case of necessity, and, ordinarily, there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the other members, and without affecting its existence: this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds; in a partnership, each member is liable jointly for the whole of the debts of the firm.

(5) In a partnership, the number of members must not exceed twenty, and

in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, or less than two in a private one.

(6) In a partnership, each partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders called *directors*.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a limited company, the powers of the company are governed by the Memorandum of Association, which can be altered only to a limited extent, as laid down in the Companies Act, 1948; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm is decided by the partners and may be altered by mutual agreement. The capital of a company is *fixed* by the Memorandum, and can only be increased or decreased in a special statutory manner.

FORMATION OF COMPANY

Any seven or more persons (or, where the company to be formed will be a private one within the meaning of the Act, any two or more persons) associated for any lawful purpose may, by subscribing their names to a Memorandum of Association, and otherwise complying with the requirements of the Act in respect of registration, form an incorporated company.

The steps in the formation of a company are briefly as follows—

1. Promoter devises a scheme of capitalization bearing in mind—

   (*a*) Price to be paid if for an existing business.
   (*b*) Assets to be purchased.
   (*c*) Cost of formation.
   (*d*) Working capital.

2. Promoter approaches financiers with a view to underwriting (if there is to be an issue of shares to the public).

3. Solicitor prepares any contracts in connexion with the purchase of assets and underwriting, but in particular the following documents to be filed with the registrar of companies—

   (*a*) Memorandum of Association,
   (*b*) Articles of Association,
   (*c*) Statement of Nominal Capital,
   (*d*) Declaration of Compliance with the Requirements of the Companies Act,

and if the company is a public one—

   (*e*) A list of persons who have consented to become directors,
   (*f*) Individual contracts agreeing to act as directors,
   (*g*) Individual undertakings to acquire qualification shares (if any).

These documents, when stamped, are all lodged with the registrar and within two or three days a certificate of incorporation will be issued.

Scheme of Capitalization. Whilst it would be impossible to consider this point at length in a textbook of this type, the value of future studies will be enhanced and greater interest created in Company Accounts if this first step in the formation of a company is given some thought.

At page 514 the various types of shares normally offered to the public are explained but, generally speaking, there are only two main types—Ordinary and Preference. This in itself requires some explanation. It is obvious that when the promoters of a company wish to raise money from the public by the sale of shares, the offer is not likely to meet with success unless the investor can be attracted, and in the main there are two types for whom the company promoter must cater.

Firstly there is the investor who likes to feel that his money is reasonably safe and that in addition he will have a first call upon any profits available for distribution in the form of dividends. Such a person is offered a Preference Share.

The other type of purchaser is the one who, in the hopes of receiving a larger share in the profits, is quite prepared to take a correspondingly greater risk. The Ordinary Share answers his requirements.

If, therefore, the capital is to be divided into Preference and Ordinary Shares, the next point the promotor must consider is one of ratio. The capital is said to be low geared when the amount of Ordinary Capital is similar to or exceeds the Preference Capital, because a small variation in profit has little effect on the rate of Ordinary dividend. When the Preference Shares greatly exceed the Ordinary Shares so that a small change in profit means a large alteration in the rate of Ordinary Dividend the capital is high geared.

To the investor in Ordinary Shares, low gearing gives more consistent results. The highly geared capital is more speculative and, whilst there is the possibility of high dividends in good years, it is possible that in bad years the full dividend on the Preference Shares may not be paid and will accumulate and become a drag on resources. From the point of view of the Preference shareholder a low geared capital gives more security.

Underwriting, Commissions and Discounts. Underwriting is insurance against the risk that shares or debentures offered to the public for subscription may not be taken up, the underwriters guaranteeing to take up those shares or debentures for which the public fail to subscribe. In return for this they are paid a commission either in cash or in shares. An agreement to *place* shares,

however, is not an underwriting agreement. By Section 53 of the Act, it is lawful for a company to pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolutely or conditionally, for any shares in the company, if the payment of the commission is authorized by the Articles, and the commission paid or agreed to be paid does not exceed 10 per cent of the price at which the shares are issued, or the amount or rate authorized by the Articles, whichever is the less, and—

(*a*) In the case of shares offered to the public for subscription, disclosed in the prospectus; or

(*b*) In the case of shares not offered to the public for subscription disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filed with the registrar of companies, and, where a circular or notice, not being a prospectus, inviting subscription for the shares is issued, also disclosed in that circular or notice.

Where a company has paid any sums by way of commission or allowed any sums by way of discount in respect of any shares or debentures, the total amount so paid or allowed, or so much thereof as has not been written off, must be stated in every Balance Sheet of the company until the whole amount has been written off.

Commission may also be paid by the underwriters to sub-underwriters for placing blocks of the underwriting, or to brokers or banks for placing shares. This is known as an "overriding" commission.

In addition to this a company usually pays brokerage. Stockbrokers and bankers are naturally in close touch with the investing public and where shares are applied for by their clients they receive a small commission if application forms bear their name and address. There is, of course, no question of underwriting in this case.

Registration of Documents. This third step in the formation of a company is almost entirely secretarial work and will therefore form a separate part of the studies of the accountancy student. Nevertheless a certain general knowledge of these matters is required and they are therefore dealt with quite briefly.

Memorandum of Association of a Company Limited by Shares. The Memorandum must state—

1. The name of the company, with "Limited" as the last word in its name.
2. Whether the registered office of the company is to be situated in England or in Scotland.

3. The objects of the company.
4. That the liability of the members is limited.
5. The amount of the share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

No subscriber to the Memorandum may take less than one share, and each subscriber must write opposite to his name the number of shares he takes.

Articles of Association. Companies which are limited by guarantee, and unlimited companies, *must* register Articles of Association along with the Memorandum. These are a set of rules or by-laws drawn up to govern the internal working of a company. They regulate the issue of capital, the transfer and forfeiture of shares, the holding of meetings, prescribe for the keeping of the accounts and the audit thereof, define the powers and duties of directors, the rights of shareholders *inter se*, etc. The First Schedule to the Companies Act, 1948, Table C, contains a model set of Articles suitable for adoption by a company limited by guarantee.

Where a company limited by shares does not frame Articles of its own, a model set of Articles, called Table A, provided in the Companies Act, 1948, applies automatically to the company. Even if Articles are registered by a company limited by shares, Table A will still apply so far as its provisions are not inconsistent with the Articles, unless it is expressly excluded or modified by the Articles.

By Section 9, Articles must (*a*) be printed, (*b*) be divided into paragraphs numbered consecutively, (*c*) bear a deed stamp, (*d*) be signed by each subscriber to the Memorandum of Association. Section 10 allows a company, by special resolution, to alter or add to its Articles. Any Article is null and void in so far as it conflicts with the Memorandum of Association or with the law. Any special resolution altering the Articles must be printed and forwarded to the registrar of companies to record within fifteen days. An exempt private company need not print the resolution but must forward a copy to the registrar in a form acceptable by him. Such special resolution must also be embodied in or annexed to every copy of the Articles issued subsequently.

Registration of Memorandum and Articles. The Memorandum and the Articles (if any) must each bear a 10s. deed stamp, and must be signed by each subscriber in the presence of at least one witness, who must attest the signature. They must then be forwarded to the registrar of companies for that part of the United Kingdom in which the registered office is stated by the Memorandum to be situate; and he will retain and register them.

Registration Fees. In addition to the deed stamp of 10s., registration stamps are necessary, in the case of a company having a share capital, according to the following scale—

	£	s.	d.
Where the nominal share capital does not exceed £2,000 . .	2	-	-
Where the nominal share capital exceeds £2,000, the following fees according to the amount of nominal share capital—			
For every £1,000 or part of £1,000 up to £5,000	1	-	-
For every £1,000 or part of £1,000 after the first £5,000 up to £100,000		5	-
For every £1,000 or part of £1,000 after the first £100,000 .		1	-
For any increase of share capital after the first registration, the same fees per £1,000 or part of £1,000 as would have been payable if the increased share capital had formed part of the original share capital.			
No company to pay in respect of nominal share capital on registration, or afterwards, any greater amount of fees than .	50	-	-
For registering any document required or authorized by the Act to be registered		5	-
For making a record of any fact required or authorized by the Act to be recorded by the Registrar		5	-

There is also a Capital duty of 10s. per cent imposed by the Finance Act, 1933.

The fees payable on the first registration are generally included in the item "Preliminary Expenses."

Preliminary Expenses. These include the law costs, registration fees, and other expenses incidental to the formation or promotion of a company. Hence they are also called **Formation Expenses** and **Promotion Expenses.** Such expenditure is, of course, Capital Expenditure; but it is usually written off to Revenue over a period of years, three, five or seven, according as the amount is small, large, or very large. The balance of the account appears each year on the assets side of the Balance Sheet until the amount is finally extinguished.

Promoter. This is the person who does the necessary preliminary work in forming or floating a company. The promoter stands in a fiduciary relationship towards the company he is floating, and must not, therefore, use his position to make any secret profit at the expense of the company. The promoter is personally liable for any acts done before the company is registered, and the company cannot subsequently ratify such acts.

Certificate of Incorporation. On the registration of the Memorandum of Association of a company the registrar certifies under his hand that the company is incorporated, and, in the case of a limited company, that the company is limited. From the date of incorporation mentioned in the certificate of incorporation the subscribers to the Memorandum, together with such other persons as may from time to time become members of the company, form

a body corporate by the name contained in the Memorandum, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a common seal, with power to hold lands, and with such liability on the part of the members to contribute to the assets of the company, in the event of its being wound up, as is mentioned in the Act.

The certificate of incorporation given by the registrar in respect of any association is conclusive evidence that all the requirements of the Act in respect of registration, and of all matters precedent and incidental thereto, have been complied with, and that the association is a company authorized to be registered and duly registered under the Act. If the company is a private one, it is at liberty to commence business forthwith; but a public company cannot proceed further than the issue of its prospectus inviting the public to apply for its shares or debentures until it obtains a certificate entitling it to commence business.

Prospectus. This is a document issued by public companies inviting the public to subscribe for shares or debentures of the company. Every prospectus issued by or on behalf of a company, or in relation to any intended company, must be dated, and such date will, unless the contrary be proved, be taken as the date of publication of the prospectus. A copy of every such prospectus, signed by every person who is named therein as a director or proposed director of the company, or by his agent authorized in writing, must be filed for registration with the registrar of companies on or before the date of its publication, and no such prospectus must be issued until a copy of it has been so filed for registration. Every prospectus must state on the face of it that a copy has been filed for registration.

All matters required by law to be stated in a prospectus are set out in the Fourth Schedule to the Companies Act, 1948.

Statement in Lieu of Prospectus. A company which does not issue a prospectus on or with reference to its formation, must not allot any of its shares or debentures unless, at least three days before the first allotment of either shares or debentures, there has been filed with the registrar of companies a "Statement in Lieu of Prospectus" signed by every person who is named therein as a director or proposed director of the company, or by his agent authorized in writing, in the form and containing the particulars set out in the fifth schedule of the 1948 Act. This does not apply to a *private* company.

Allotment of Shares and Restrictions on Allotment. Allotment signifies the distributing of the shares in response to the applications made for them, or in pursuance of contracts agreeing to take them. **A Letter of Allotment** (see page 519) is sent to each allottee informing him of the numbers of the shares allotted

to him. An application for shares is an offer to contract, and the posting of the Letter of Allotment is an acceptance of such offer. If no allotment is made a Letter of Regret (see page 520) is forwarded.

By Section 47 of the Act—

1. No allotment shall be made of any share capital of a company offered to the public for subscription unless the amount stated in the prospectus as the minimum amount which, in the opinion of the directors, must be raised by the issue of share capital in order to provide for the matters specified in par. 4 of the Fourth Schedule to this Act has been subscribed, and the sum payable on application for the amount so stated has been paid to and received by the company.

2. The amount so stated in the prospectus shall be reckoned exclusively of any amount payable otherwise than in cash and is, in this Act, referred to as "the minimum subscription."

3. The amount payable on application on each share shall not be less than 5 per cent of the nominal amount of the share.

If the above conditions have not been complied with on the expiration of forty days after the first issue of the prospectus, the directors of the company must, within forty-eight days after the issue of the prospectus, refund to the applicants all moneys received from them. Beyond this period, the directors of the company would be liable to pay 5 per cent interest on amounts to be refunded to the applicants.

The above regulations, except (3), do not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription.

Where a company does not issue a prospectus there must be delivered to the registrar of companies a "Statement in Lieu of the Prospectus," three days prior to proceeding to allot shares offered to the public for subscription.

Restrictions on Commencement of Business. By Section 109, a company must not commence any business or exercise any borrowing powers unless—

(*a*) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription; and

(*b*) Every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash; and

(*c*) No money is liable to be repaid to applicants for shares or debentures by reason of failure to apply for or to obtain permission for the shares or debentures to be dealt with on any stock exchange; and

(*d*) There has been filed with the registrar of companies a statutory declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with; and

(*e*) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the registrar of companies a statement in lieu of prospectus.

On the filing of the statutory declaration, and the statement in lieu of prospectus where necessary, the registrar of companies issues a certificate that the company is entitled to commence business. This section does not apply to a *private* company.

Return as to Allotments. By Section 52, whenever a company limited by shares makes any allotment of its shares, the company must within one month thereafter file with the registrar of companies—

(*a*) A return of the allotments stating the number and nominal amount of the shares comprised in the allotment, the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share; and

(*b*) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

Certificates of Shares or Stock. Every company must, within two months after the allotment of any of its shares, debentures, or debenture stock, and within two months after lodgment of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide. A certificate, under the common seal of the company, specifying any shares or stock held by any member is prima facie evidence of the title of the member to the shares or stock. The certificates are issued in exchange for the allotment letters and the bankers' receipts for money paid on application and allotment.

Nature of Shares and of Money Due on Them. The shares or other interest of any member in a company are personal estate, transferable in the manner provided by the Articles of the company. Each share in a company having a share capital must be distinguished by its appropriate number, unless it belongs to a class all issued shares of which are fully paid and rank *pari passu.* A company cannot purchase its own shares. Any money due from a member of the company in respect of his shares is of the nature of a specialty debt, that is, recoverable any time within twelve years.

Transfer of Shares. Unless the Articles restrict or forbid it, shares are transferable either by deed or by an instrument in writing signed by the transferor and the transferee, and such transfer must be sent to the company's office for registration. The transferee then has the right to have his name entered on the Register of Members as the holder of the shares. Any transfer of the shares of a deceased member by his personal representative—executor or administrator—or by the trustee in bankruptcy is valid. Companies generally charge a fee of 2s. 6d. for registering transfers. These fees are posted to a separate account under the heading of "Transfer Fees," and carried to the credit of the Profit and Loss Account. When partly paid shares are transferred, the transferor may still be liable for the amount due on them within a period of one year from the time at which he ceased to be a member, that is, if the transferee fails to pay the amount.

Office and Seal of Company. Every company must have a **registered** office to which all communications and notices may be addressed. Notice of the situation of the registered office, and of any change therein, must be given to the registrar of companies.

Every company must also possess a **common seal,** which must be used for the authentication of all important documents.

Meetings—Annual General Meeting. A general meeting which is specified as the annual general meeting of a company must be held once at least in every calendar year, and not more than fifteen months after the holding of the last preceding general meeting. If default is made in holding such a meeting, the Board of Trade may, on the application of any member, call or direct the calling of a general meeting of the company.

Statutory Meeting and Statutory Report. By Section 130 of the Act, every company limited by shares and every company limited by guarantee and having a share capital shall, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company which is to be called the statutory meeting. The directors must, at least fourteen days before the day on which the meeting is held, forward a report (in the Act called the **statutory report**) to every member

of the company. The statutory report must be certified by not less than two directors of the company.

This must give specific information as set out in full in the section of the Act referred to. For specimen see next page.

A copy of this report must be filed with the registrar of companies. The provisions as to the statutory meeting and the statutory report do not apply to a *private* company.

Different Amounts Payable on Shares. A company, if so authorized by its Articles, may—

1. Make arrangements on the issue of shares for a difference between the shareholders in the amounts and times of payment of calls on their shares.

2. Accept from any member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up.

3. Pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.

Alteration of Share Capital. A company limited by shares, if so authorized by its Articles, may alter the conditions of its Memorandum, that is to say, it may—

(*a*) Increase its share capital by the issue of new shares of such amount as it thinks expedient.

(*b*) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.

(*c*) Convert all or any of its paid-up shares into stock, and reconvert that stock into paid-up shares of any denomination.

(*d*) Subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, so, however, that in the subdivision the proportion between the amount paid and the amount (if any) unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived.

(*e*) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Every copy of the Memorandum issued subsequently must be in accordance with the alteration. Notice of any such increase, consolidation, division, conversion, or reconversion must be given to the registrar of companies.

Reduction of Share Capital. A company limited by shares may, if so authorized by its Articles, by special resolution confirmed by an order of the Court, modify the conditions contained in its Memorandum so as to reduce its share capital in any way. An

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

STATUTORY REPORT OF THE DIRECTORS.

PURSUANT to Section 130 of the Companies Act, 1948, your Directors beg to report as follows—

(*a*) The total number of Shares allotted is 60,000, of which 20,000 are allotted as fully paid up, in part consideration of the goodwill and assets of the business, and upon each of the remaining Shares the sum of 10s. 0d. has been paid in Cash.

(*b*) The total amount of cash received by the Company in respect of the Shares issued wholly for Cash is £20,000.

(*c*) The Receipts and Payments of the Company to 20th March, 19.., are as follows—

Particulars of Receipts	£ s. d.	Particulars of Payments	£ s. d.
To Application and Allotment Instalments—		By Vendor (part payment of purchase price)	10,000 -
Ordinary Shares	5,000 -	„ Preliminary Expenses	3,000 - -
Preference Shares	15,000 - -	„ Printing and Stationery	120 - -
Debentures	10,000 - -	„ Balance at X Bank	16,880 - -
	£30,000 - -		£30,000 - -

The Preliminary Expenses of the Company are estimated at £4,000.

(*d*) The following are the Names, Addresses, and Descriptions of the Directors, Auditors, Manager, and Secretary of the Company—

Directors.

FRANK T. WALDRON, Merchant, 1 Penley Mansions, Sidcup.
THOMAS RETROP, Solicitor, 2 Lucas Street, Bexley.
ALBERT O. COOPER, Gentleman, The Cedars, Farnham.
JAMES F. LONGLEY, Gentleman, 8 Park Drive, Bromfield.

Auditors.

FREDERICK SHARPE & CO., Chartered Accountants, 67–69 Temple Avenue, Holborn, London, E.C.2.

Manager.

FRANK T. WALDRON, Merchant, 1 Penley Mansions, Sidcup.

Secretary.

THOMAS DUNSCOMBE MATTHEWS, Chartered Secretary, 27 Finsbury Park Road, London, N.22.

(*e*) Particulars of Contracts, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

We hereby certify that this Report is correct.

FRANK T. WALDRON,
THOMAS RETROP, } *Directors*

Auditors' Report.

We hereby certify that so much of this Report as relates to the Shares allotted by the Company and to the Cash received in respect of such Shares, and to the Receipts and Payments of the Company on Capital Account, is correct.

F. SHARPE & CO.,
Chartered Accountants, } *Auditors.*

Dated this 20th day of March, 19...

office copy of any such order must be filed with the registrar of companies before the resolution can take effect.

Reserve Liability of Limited Company. A limited company may by special resolution determine that any portion of its share capital which has not been already called up shall not be capable of being called up, except in the event and for the purposes of the company being wound up. The object of this is to increase the confidence of creditors in the financial stability of the company.

Mortgages, Charges, etc. By Section 95 of the Act—

(*a*) a charge for the purpose of securing any issue of debentures;

(*b*) a charge on uncalled share capital of the company;

(*c*) a charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale;

(*d*) a charge on land, wherever situate, or any interest therein;

(*e*) a charge on book debts of the company;

(*f*) a floating charge on the undertaking or property of the company;

(*g*) a charge on calls made, but not paid;

(*h*) a charge on a ship or any share in a ship;

(*i*) a charge on goodwill, on a patent or a licence under a patent; on a trade-mark or on a copyright or a licence under a copyright,

shall, so far as any security on the company's property is thereby conferred, be void against the liquidator and any creditor of the company, unless the prescribed particulars of the charge, together with the instrument (if any) by which the mortgage or charge is created or evidenced, are delivered to or received by the registrar of companies for registration in the manner required by the Act within twenty-one days after the date of its creation.

The registrar shall keep, with respect to each company, a register in the prescribed form of all the charges created by the company, and requiring registration under this section, and shall, on payment of the prescribed fee, enter in the register with respect to every such charge, the date of creation, the amount secured by it, short particulars of the property charged, and the names of the persons entitled to the charge. The register shall be open to inspection by any person on payment of a fee not exceeding 1s. for each inspection.

The registrar shall give a certificate under his hand of the registration of any mortgage or charge registered in pursuance of this section stating the amount thereby secured. The company shall cause a copy of every certificate of registration to be endorsed on every debenture or certificate of debenture stock which is issued by the

company, and the payment of which is secured by the charge so registered.

It shall be the duty of the company to send to the registrar for registration the particulars of every charge created by the company, and of the issues of debentures of a series, requiring registration under this section. Every company must keep a copy of every such instrument, and a copy of one such debenture, at its registered office.

Perpetual Debentures. A condition contained in any debentures or in any deed for securing any debentures, is not invalid by reason only that thereby the debentures are made irredeemable or redeemable only on the happening of a contingency, however remote, or on the expiration of a period, however long.

Power to Reissue Redeemed Debentures. Where a company has redeemed any debentures previously issued, the company, unless the Articles or conditions of issue expressly otherwise forbid, has power to keep the debentures alive for the purposes of reissue, and may either reissue the same debentures or issue others in their place. Where a company has deposited any of its debentures to secure advances from time to time, on current account or otherwise, the debentures are not deemed to have been redeemed by reason only of the account of the company having ceased to be in debit whilst the debentures remained so deposited.

Trust Deed. The property of the company comprised in the charge is frequently conveyed by way of mortgage to a trustee or trustees for the debenture holders. Such an instrument is called a "trust deed," and reference to such trust deed and conditions is made on every debenture covered by it.

Floating Charge. If the property mortgaged consists of assets other than freeholds and leaseholds, such as stock, book debts, etc., the charge is called a "floating charge," and the company is able to deal with its movable property in the ordinary course of business. A floating charge attaches to the assets in the varying condition they may happen to be from time to time, and remains dormant all the while the company is a going concern, or until after default in payment of interest.

Rights of a Debenture Holder. A debenture holder who has a charge upon the company's property may—

1. Sue for repayment of the principal and any interest which is owing.
2. Present a winding-up petition against the company.
3. Prove for the debt in the winding up.
4. Appoint a receiver.

The last right is the one most frequently exercised; for a company may be only temporarily embarrassed, and a little careful management may lift it out of its difficulties.

Auditors and Audit. Every company must have an annual audit, and the auditors must report to the members on the accounts examined by them, and on every Balance Sheet, every Profit and Loss Account and all group accounts laid before the company in general meeting during their term of office. The report shall state—

1. Whether they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit.

2. Whether in their opinion proper books of account have been kept by the company, so far as appears from their examination of those books, and proper returns adequate for the purposes of their audit have been received from branches not visited by them.

3. (1) Whether the company's Balance Sheet and (unless it is framed as a consolidated Profit and Loss Account) Profit and Loss Account dealt with by the report are in agreement with the books of account and returns.

(2) Whether in their opinion and to the best of their information, and according to the explanations given them, the said accounts give the information required by the Act in the manner so required, and give a true and fair view—

(*a*) in the case of the Balance Sheet, of the state of the company's affairs as at the end of its financial year; and

(*b*) in the case of the Profit and Loss Account, of the profit or loss for its financial year.

4. In the case of a holding company submitting group accounts, whether, in their opinion, the group accounts have been properly prepared in accordance with the provisions of this Act so as to give a true and fair view of the state of affairs, and profit or loss of the company and its subsidiaries dealt with thereby, so far as concerns members of the company . . . (Ninth Schedule.)

Auditors have a right of access at all times to the books, accounts and vouchers of the company, and are entitled to whatever facilities may be necessary in the performance of their duties. They may attend any general meeting and are entitled to be heard on any business which concerns them as auditors.

Companies Established Outside the United Kingdom. Every company incorporated outside Great Britain which establishes a place of business within Great Britain must, within one month from the establishment of the place of business, file with the registrar—

(*a*) a certified copy of the charter, statutes, or Memorandum and Articles of the company, or other instrument constituting or defining the constitution of the company, and, if the instrument is not written in the English language, a certified translation thereof;

(*b*) particulars of the directors and secretary of the company;

(*c*) the names and addresses of some one or more persons resident in the United Kingdom authorized to accept on behalf of the company service of process and any notices required to be served on the company;

and in the event of any alteration being made in any such instrument or in the directors or secretary or in the names or addresses of any such persons as authorized, the company must within the prescribed time file with the registrar a notice of the alteration. Every such company must file with the registrar each year the prescribed Statement in the form of a Balance Sheet and Profit and Loss Account or a certified translation thereof.

CAPITAL

Share Capital. Capital is the money subscribed by the shareholders for the purposes of the company.

Nominal Capital is the amount stated in the Memorandum of Association as the amount authorized to be issued and upon which stamp duty has been paid.

Authorized Capital is another term with the same meaning. The Memorandum is looked upon as the charter which *authorizes* the existence and acts of the company, hence the application of the word to its capital.

Registered Capital is also another name for the amount stated in the Memorandum of Association. The Memorandum has to be *registered* by the registrar of companies, and this fact accounts for the use of the term with reference to the company's capital.

Issued and Subscribed Capital. This is the capital represented by the number of shares that have been issued to the public for cash, and to the vendors as fully or partly paid. A company frequently *issues* only a part of its shares, hence the use of the term Issued Capital to denote the part so issued.

Called-up Capital is the amount of money called up on the shares actually subscribed. A company does not necessarily require the full amount at once on the shares it has issued, and, therefore, *calls up* only such as it needs, hence the use of the term.

Paid-up Capital is the amount of the called-up capital that has actually been *paid up* by the shareholders, some of whom sometimes fail to pay the sums due from them when a call is made, the amounts thus owing being known as "Calls in Arrear" or "Calls Unpaid." It also includes the amount of the shares issued as fully or partly paid to the vendor and others.

Uncalled Capital is the amount of the capital remaining *uncalled* on the shares actually issued to the public, the vendors and others.

Reserve Capital is the amount of the authorized capital which has not been called up and which the company, by special resolution, has determined shall not be capable of being called up, except in the event, and for the purpose of, winding up.

Example. A company was formed with a capital of £100,000 in shares of £1 each, and duly incorporated. It issued to the vendors 30,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 50,000 shares,

payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 200 shares. Give the various kinds of capital.

	£
Nominal Capital / Authorized Capital / Registered Capital	100,000
Issued Capital	80,000
Called-up Capital	55,000
Paid-up Capital	54,950
Uncalled Capital	25,000

SHARES

Classes of Shares. A share is the individual portion of the joint stock company's capital owned by a shareholder. Shares are divided into different classes according to their respective rights.

Ordinary Shares are those which have no special or particular rights, but merely the ordinary right of every shareholder, as such, to participate in the profits.

Preferred Ordinary Shares are those which have a right to a fixed dividend after the payment of dividend to the preference shareholders.

Deferred Ordinary Shares are those which rank for dividend after the preferred ordinary shares, and which are usually entitled to the profits then remaining.

Preference Shares are those which have a prior claim on any profits available for dividend. They *may* also have a prior claim to repayment of capital in the event of a winding up. If the shares are not Cumulative Preference Shares, the preference dividend is payable only *out of the profits of each year*; and if not paid then, the Preference shareholder cannot claim to receive it out of profits in subsequent years.

Cumulative Preference Shares are those on which the fixed dividend accumulates until it is all paid, the arrears of any one year being carried forward as a charge upon the subsequent year's profits. There is, however, no obligation to pay until a resolution has been passed declaring a dividend. The arrears are, therefore, shown on the Balance Sheet by way of note only. Unless the Articles expressly or impliedly provide otherwise, Preference Shares are always cumulative as to dividend, but not preferential as to capital.

Redeemable Preference Shares are a class of share which, by the Companies Act, 1948 (Section 58), a company may issue if authorized by its Articles. The company may provide for their repayment by creating a "Reserve Fund" built up of "profits" which, otherwise, would have been available for dividends or alternatively by an issue of new shares for this express purpose. No such shares can be redeemed unless fully paid.

Deferred, Founders, or Management Shares. These are shares which have to wait for their dividend until all other classes of share have participated in the profits. They are often taken by the founders or promoters of the company, and sometimes by the vendors. They are generally entitled to the whole or a very large portion of the surplus profits after payment of all prior claims.

Difference between Shares and Stock. Shares are units of capital and are transferable only in their entirety. Stock on the other hand is the mass of the capital of the company, any part of which is transferable; subject to any limitation in the Memorandum or Articles any fractional part of a pound may be transferred. Shares may be only partly paid, but stock must always be fully paid. Shares are usually numbered while stock is not identified in this way.

STATUTORY AND STATISTICAL BOOKS

The term *statutory books* merely means those which, by law, i.e. the Companies Act, 1948, every company must keep.

Books of Account. Section 147 of the Companies Act requires that every company shall cause to be kept proper books of account with respect to—

(*a*) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(*b*) all sales and purchases of goods by the company;

(*c*) the assets and liabilities of the company.

It will be seen that no particular books are specified, but whatever books are kept (Cash Book, Sales and Sales Returns Book, Purchases and Purchases Returns Book, and Ledgers) must be such as to give a true and fair view of the state of the company's affairs and explain its transactions.

Books of Record. In addition to the above financial books, the law as contained in the Companies Act makes the keeping of the following books compulsory—

Section 110. Register of Members (including a copy of any Dominion Register).
" 195. Register of Directors' Shareholdings.
" 200. Register of Directors and Secretaries.
" 104. Register of Mortgages and Charges.
" 145. Minute Book.

Many other books are necessary if complete records are to be kept of the numerous details connected with the business operations, but they are optional.

They are all statistical books and those generally to be found are—

1. Application and Allotments Book.
2. Call Books.
3. Share Certificate Books.
4. Registers of Transfers.
5. Debenture Interest Book.
6. Dividend Books.
7. Seal Register.
8. Register of Probates.
9. Directors' Attendance Book.
10. Agenda Book.
11. Register of Debenture Holders.

The keeping of all these books is almost entirely secretarial work, but as questions are set upon some of the more important in many accountancy examination papers, further consideration must be given to them.

Register of Mortgages and Charges. This is another tabular book in which are entered all charges specifically affecting the property of the company, and all floating charges on the undertaking or any property of the company, and should show the date the charge was created, the mortgagee's name and address, the amount of the charge, short particulars of the property charged, and the rate of interest.

An example of a suitable ruling is given below—

REGISTER OF CHARGES

No. of Charge	Date Charge Created	Mortgagee's Name	Mortgagee's Address	Amount of Charge	Particulars of Property Charged	Rate of Interest	Remarks
	19— Jan. 1	Series of 100 Debentures of £100 each, secured by a Trust Deed of which the following are Trustees— John Wilson, The Lodge, Derby. Fred Smith, Red Gable, Leeds.		£ 10,000	The whole of the undertaking of the company, both present and future, including its uncalled capital for the time being	% 4	

Application and Allotments Book. This is ruled in tabular form and sets out the names, addresses, and occupations of all applicants for shares, the number of shares applied for, the amount paid on application, the number of shares allotted, the distinctive numbers of such shares, the amount due on application and allotment, the balance due on allotment, the cash paid on allotment,

cash returned on shares applied for and not allotted, the numbers of the Share Certificates issued, and a remarks column. It is used to record the details stated in respect of each applicant, and the Register of Members is compiled from it. Separate books or sheets are kept for each class of share.

All persons who are allotted shares must have some form of evidence of ownership, and this is the Letter of Allotment to which reference is made on page 504.

There is no one form, but a representative specimen appears on page 519.

Where the shares are eagerly sought after it may not be possible to allot shares to all applicants, so that some will have to be repaid the money deposited at the time of application; and as a matter of form a Letter of Regret (see specimen on page 520) is sent with the warrant or cheque.

The amount paid on application and allotment is usually only a part of the nominal value of the shares, the balance being received by the company in the form of calls spread over a period as stated in the prospectus. It would seem, then, that once a person has been allotted shares, the calls must be paid, usually to the full nominal value; the shares may, of course, be issued at a premium. After allotment any change of ownership can take place only by means of a transfer. In practice transfers would cause an enormous amount of work, at least until the shares had "settled down" on the market, but for an arrangement now to be described.

It must be remembered that in possibly the majority of share issues there are large numbers of persons who do not receive any allotment and who, in their desire to become shareholders, immediately turn to the Stock Exchange with a view to making a purchase. This demand, following the rule of supply and demand, will result in a price in excess of the amount paid on application and allotment and the shares are said to be at a premium. This may take place quite a long time before any calls are due and therefore at a time when those who are prepared to sell have only Letters of Allotment as evidence of their ownership.

To prevent the execution of a transfer which, besides causing the company a lot of work, would be expensive, most Allotment Letters are provided on the reverse side with a form of Renunciation and Acceptance. The holder of the Letter of Allotment has only to renounce his right to the share by signing the renunciation portion, whilst the buyer signs the form of acceptance, as the result of which the shares change hands. The period during which this may be done must, of course, be limited, and is usually fixed at not more than one month, after which shares can change hands only by transfer deeds. On page 521 is a specimen of a Letter of Renunciation and Acceptance.

ORDINARY SHARE APPLICATION AND ALLOTMENT BOOK

No. of Application	Name	Address	Occupation	No. of Shares Applied For	Amount Paid on Application £	s.	d.
1	Archer, Arthur	Green Hollow, Leeds.	Iron Merchant	500	125	–	–
2	Arnold, Benjamin	The Wave, Torquay.	Barrister.	1,000	250	–	–
3	Brown, Joseph.	The Firs, Guiseley, Leeds.	Stockbroker	1,000	250	–	–

[*Left-hand side*]

ORDINARY SHARE APPLICATION AND ALLOTMENT BOOK (*contd.*)

No. of Shares Allotted	Distinctive No.		Share Ledger Folio	Amount Due on Application and Allotment			Balance Due on Allotment			Cash Paid on Allotment			Cash Returned			No. of Share Certificate	Remarks
	From	To		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		
													125	–	–		
800	1	800		400	–	–	150	–	–	150	–	–					
1,000	801	1,800	3	500	–	–	250	–	–	250	–	–					

[*Right-hand side*]

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1948.)

LETTER OF ALLOTMENT.

No................. *Registered Office,*

....19...

Sir or Madam,

In accordance with your application for Shares in the above Company, I have to inform you that the Directors have allotted you .... Preference Shares of £1 each.

The amount payable on application and allotment in respect of the said shares is £ : :

You have paid on application £ : :

Leaving a balance due from you of £ : :

which sum must be paid to the Company's Bankers, THE METRO BANK, LIMITED, Annon Street, London, S.W., on or before the .... instant.

Yours faithfully,

To..

....

.... *Secretary.*

This form must be forwarded ENTIRE, together with remittance, to the Company's Bankers.

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

BANKER'S RECEIPT

Received this .... day of ...., 19...
from ....
the sum of ....
being .... per Share payable on allotment of .... Preference Shares of £ .... each in the above Company.

For THE METRO BANK, LIMITED

.... *Stamp.* ....

£ : : *Cashier*

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1948.)

LETTER OF REGRET.

No................ *Registered Office,*

...............................19....

Sir or Madam,

With reference to your application for Shares in the above Company, I have to inform you that because of an over-subscription, the Directors regret they are unable to make you any allotment.

I therefore enclose a cheque for £ : : , being the amount deposited by you on application for the said shares, and shall be obliged if you will kindly sign and return the Receipt at the foot of this form.

Yours faithfully,

To ....

....

.... *Secretary.*

....

. . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

RECEIPT.

No....................

Date.......................19..

RECEIVED of the above-named Company the sum of........................ ....being refund of amount paid on application for....................Preference Shares in the above Company not allotted.

Signature........................ Stamp. ....

£ : :

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1948.)

LETTER OF RENUNCIATION.

To the Directors of

THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

I hereby renounce my right to the allotment of.................................. shares of £....................each in the above Company, and request you to allot the said shares to my nominee:

Name ....

Address ....

....

Occupation ....

(*Signed*) ....

Dated this ....day of...............19...

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1948.)

LETTER OF ACCEPTANCE.

To the Directors of

THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

I hereby agree to accept the................................shares of £........ each in the above Company renounced by...in my favour. I undertake to pay the calls which may be made thereon. I also hereby request you to enter my name in the Register of Members in respect of the said shares.

Dated this...................day of...........................19....

Signature ....

Address ....

....

Occupation ....

Many thousands of entries must obviously be made to record the cash in connexion with share issues, and in order to relieve the General Cash Book of all this detail, special subsidiary Cash Books are used, only the totals being transferred to the main book. The company's bankers also keep separate Pass Books to correspond. Much depends upon the size of the issue whether or not this is done, and in small companies it would no doubt be sufficient to record the details in an inner column of the General Cash Book, extending only the daily totals into the bank column.

The following example is typical and will show the relation of the Cash Books to the Share Ledger and Application and Allotment Sheets.

Example. The Waldron Manufacturing and Trading Co., Ltd., was registered with a capital of £100,000, consisting of 50,000 Ordinary Shares of £1 each, and 50,000 6 per cent Preference Shares of £1 each. The objects of the company were *inter alia* to acquire the goodwill and assets of the business of Frank T. Waldron. The purchase price was to be paid as to £10,000 in cash, and as to £20,000 in fully-paid Ordinary Shares of the company, allotted either to the vendor or to his nominees. Ten thousand of the Ordinary Shares were offered on January 1st for public subscription, payable 2s. 6d. per share on application, 7s. 6d. per share on allotment, and the balance in calls not exceeding 5s. per share.

Applications were received, and allotments made, as under—

		No. of Shares applied for.	No. of Shares allotted.
Jan. 2.	Matthew B. Barker, Solicitor, 71 Lime Street, Barnes (including 1 share as signatory of the Memorandum)	2,500	2,000
3.	Edward Clarke, Solicitors' Clerk, 120 Mare Street, Hackney, London, N.E. (signatory) . . .	1	1
4.	John F. Dalton, H.M.C.S., 194 Mildmay Park, London, N. (signatory)	1	1
4.	Fred Evans, Solicitors' Clerk, 96 Rood Lane, Brixton, London, S.W. (signatory)	1	1
6.	Isaac L. Mensper, Surveyor, 25 Leyton Street, Boro, London, S.E. (signatory)	1	1
6.	Ernest O. Prince, Accountant, 12 Temple Chambers, Holborn, London, E.C. (signatory) . . .	1	1
7.	Thomas P. Retrop, Solicitor, 2 Lucas Street, Bexley (including 1 share as signatory)	3,000	2,495
7.	Arthur Holdfast, Cotton Merchant, 726 Lime Street, Liverpool	500	nil
8.	James F. Longley, Gentleman, 6 Park Drive, Bromfield	10,000	5,500
8.	Mrs. Ruth Oliver, Widow, Halstead Park, Framley .	500	nil

Allotments were made on January 15th in order of application, and the shares numbered from 1 upwards. No allotments were made to A. Holdfast and Mrs. Oliver, whose deposits were duly returned in full with Letters of Regret, Nos. 1 and 2. The moneys

due on allotment were payable by 20th January, by which date they were all received.

Allotments were also made to the vendor and his nominee as follows—

Frank Waldron, Merchant, 1 Penley Mansions, Sidcup, 15,000 shares (4,501 to 19,500).

Ellen Goode, Spinster, 114 High Road, Sydenham, 5,000 Shares (19,501 to 24,500).

Write up the Application and Allotments Book, and Shareholders' Cash Book, recording the above particulars.

71 SHAREHOLDERS' CASH BOOK 71

(ORDINARY SHARES)

Dr. *Cr.*

Date	Receipts	Folio	Amount	Date	Payments	Folio	Amount
19..			£ s. d.	19..			£ s. d.
Jan. 2	To Application A/c—			Jan. 15	By Application A/c—		
„ 2	Barker, M. B. .	101	312 10 –	„ 15	Holdfast, A .	c.	62 10 –
„ 3	Clarke, E. .	102	2 6	„ 15	Oliver, Mrs. R.	c.	62 10 –
„ 4	Dalton, J. F. .	103	2 6	„ 15	Balance c/f .		1,938 2 6
„ 4	Evans, Fred .	104	2 6				
„ 6	Mensper, I. L.	105	2 6				
„ 6	Prince, O. .	106	2 6				
„ 7	Retrop, T. P. .	107	375 – –				
„ 7	Holdfast, A. .	c.	62 10 –				
„ 8	Longley, J. F. .	110	1,250 – –				
„ 8	Oliver, Mrs. R.	c.	62 10 –				
			£2,063 2 6				£2,063 2 6

72 SHAREHOLDERS' CASH BOOK 72

(ORDINARY SHARES)

Dr. *Cr.*

Date	Receipts	Folio	Amount	Date	Payments	Folio	Amount
19..			£ s. d.	19..			£ s. d.
Jan. 15	To Balance b/f .		1,938 2 6	Jan. 20	By Transfer to General Cash Book . .		5,000 – –
„ 20	„ Allotment A/c—						
„ 20	Barker, M. B. .	101	687 10 –				
„ 20	Clarke, E. .	102	7 6				
„ 20	Dalton, J. F. .	103	7 6				
„ 20	Evans, Fred .	104	7 6				
„ 20	Mensper, I.L. .	105	7 6				
„ 20	Prince, E. O. .	106	7 6				
„ 20	Retrop, T. P. .	107	872 10 –				
„ 20	Longley, J. F. .	110	1,500 – –				
			£5,000 – –				£5,000 – –

The work entailed in the making of calls on shares or debentures is almost identical with that already described in connexion with an original issue. Call sheets or books in tabular form are used, together with a separate Cash Book and Pass Book, the cash eventually being posted to the Capital Account. The entries as regards the cash are given fully in Section B of this chapter.

21 **APPLICATION AND ALLOTMENTS**

No. of Application	Name	Address	Occupation	No. of Shares applied for	Amount paid on Application £ s. d.	No. of Shares Allotted
1	*Barker, Matthew B.*	*71 Lime Street, Barnes, S.W.*	*Solicitor*	2,500	312 10 -	2,000
2	*Clarke, Edward*	*120 Mare Street, Hackney, N.E.*	*Solicitor's Clerk*	1	2 6	1
3	*Dalton, John F.*	*194 Mildmay Park, N.*	*H.M.C.S.*	1	2 6	1
4	*Evans, Fred*	*96 Rood Lane, Brixton, S.W.*	*Solicitor's Clerk*	1	2 6	1
5	*Mensper, Isaac L.*	*25 Leyton Street, Boro, S.E.*	*Surveyor*	1	2 6	1
6	*Prince, Ernest O.*	*12 Temple Chambers, Holborn, E.C.*	*Accountant*	1	2 6	1
7	*Retrop, Thomas P.*	*2 Lucas Street, Bexley*	*Solicitor*	3,000	375 - -	2,495
8	*Holdfast, Arthur*	*726 Lime Street, Liverpool*	*Cotton Merchant*	500	62 10 -	—
9	*Longley, James F.*	*6 Park Drive, Bromfield*	*Gentleman*	10,000	1,250 - -	5,500
10	*Oliver, Mrs. Ruth*	*Halstead Park, Framley*	*Widow*	500	62 10 -	—
				16,505	£2,063 2 6	10,000

NOTE.—The shares allotted to the vendor and his nominee have, in this case, been entered from Allotments Book, in order to have a complete record.

The share certificates having been issued, all future changes in ownership must take place as the result of a formal transfer. All changes must eventually be recorded in the Register of Members, but for this purpose, although some companies post direct from the transfer form, it is still quite customary to have a subsidiary book—a Register of Transfers.

Register of Transfers. This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns to record the names and addresses of both transferor and transferee, the number of shares transferred, their distinctive numbers and the amount paid up thereon, the date the transfer was registered, and the number of new share certificate issued to the transferee. Other columns are also met with in some companies' books, viz. date the transfer was lodged with the company, number of old share certificate to be cancelled, number of balance certificate issued to transferor, amount of consideration received by transferor. date and number of minute passing the transfer, etc.

In large companies, separate Transfer Registers are kept for each class of shares, also a separate department and staff. In small companies, one register frequently suffices, transfers of ordinary shares being entered in black ink, and transfers of preference shares in red; while in many such companies the Register of Transfers is frequently bound up with the Share Ledger, and thus forms part of it.

BOOK (ORDINARY SHARES) 21

Distinctive Numbers From	Distinctive Numbers To	Share Ledger Folio	Amount due on Application and Allotment £ s. d.	Balance due on Allotment £ s. d.	Cash paid on Allotment £ s. d.	Cash returned £ s. d.	No. of Share Certificates	Remarks
1	2,000	101	1,000 – –	687 10 –	687 10 –		1	*Signatory*
	2,001	102	10 –	7 6	7 6		2	,,
	2,002	103	10 –	7 6	7 6		3	,,
	2,003	104	10 –	7 6	7 6		4	,,
—	2,004	105	10 –	7 6	7 6		5	,,
—	2,005	106	10 –	7 6	7 6		6	,,
2,006	4,500	107	1,247 10 –	872 10 –	872 10 –		7	,,
—	—	—	— – –	— – –	— – –	62 10 –	—	*Letter of Regret, No. 1*
24,501	30,000	110	2,750 – –	1,500 – –	1,500 – –		10	
—	—	—	— – –	— – –	— – –	62 10 –	—	*Letter of Regret, No. 2*
			£5,000 – –	£3,061 17 6	£3,061 17 6	£125 – –		

the Journal into the Share Ledger; some accountants, however, enter them in the Application and

A suitable ruling is illustrated on the next page.

The transfer deed has to bear an *ad valorem* stamp duty based on the market price of the shares or stock changing hands. There are, however, many occasions when it is necessary for such securities to be transferred without a purchase or sale taking place. In these cases instead of the true value being entered in the transfer deed as the **consideration,** a "nominal" figure is used, often as low as five shillings, and the stamp duty is then only ten shillings, however great the value of the shares may be.

This fixed duty of 10s. is applicable when the transaction falls within one of the following descriptions—

(*a*) Vesting the property in trustees on the appointment of a new trustee of a pre-existing trust, or on the retirement of a trustee.

(*b*) A transfer, as for a nominal consideration, to a mere nominee of the transferor where no beneficial interest in the property passes.

(*c*) A transfer by way of security for a loan; or a re-transfer to the original transferor on repayment of a loan.

(*d*) A transfer to a residuary legatee of stock, etc., which forms part of the residue devisable under a will.

(*e*) A transfer to a beneficiary under a will of a specific legacy of stock, etc.

(*f*) A transfer of stock, etc., being the property of a person dying intestate to the party or parties entitled to it.

REGISTER OF TRANSFERS, ORDINARY SHARES

No. of Transfer	Date Transfer Regis-tered	Transferor's			Transferee's			No. of Shares	Shares Transferred			No. of New Certificates	Remarks
		Fo.	Name	Address	Fo.	Name	Address		Dist. Nos.		Amount Paid Up		
									From	To			
1	19.. Mar. 15	8	Pearce, Stanley	14 Brewerton Lane, Bradford	97	Bucknall, Fred	Westgarth, Baildon	2,000	2,301	4,300	£2,000	138	

REGISTER OF TRANSFERS, PREFERENCE SHARES

No. of Transfer	Date Transfer Regis-tered	Transferor's			Transferee's			No. of Shares	Shares Transferred			No. of New Certificates	Remarks
		Fo.	Name	Address	Fo.	Name	Addres		Dist. Nos.		Amount Paid Up		
									From	To			
2	19.. Mar. 15	79	Honey, Timothy	Brevity St., Morley	171	Carreras, Peter	Charles Street, Beverley	1,000	5,764	6,763	£1,000	321	
3	„ 28	33	Tushingham, George	17 George St., Liverpool	172	Dawson, Arthur	69 West Lane, Dinnington	500	571	1,070	£500	322	

(*g*) A transfer to a beneficiary under a settlement on distribution of trust funds of stock forming the share of the funds to which he is entitled.

(*h*) A transfer on the occasion of marriage to trustees of a settlement made in consideration of marriage.

(*i*) A transfer by a liquidator of stocks forming part of the assets of a company to shareholders in that company in satisfaction of their rights on winding up.

If a transfer, however, is made on a sale, or in liquidation of a debt, or in exchange for other securities, *ad valorem* duty is payable on the value, or agreed value, of the consideration.

Registration of Transfers. Each transfer has to be forwarded, together with the share certificate concerned, to the company's registered office for approval and registration. The transfer is examined with respect to stamp duty, date, signatures, etc., and the distinctive numbers[1] of the shares mentioned therein are compared with the numbers stated in the share certificate, also with those in the shareholder's account in the Share Ledger. The signature of the transferor is compared with his signature on previous transfers or on application forms. In some cases the transferor is notified by the company of the lodgment of the transfer, as a precaution against forgery. The transfer is then submitted to the Board of Directors. If they approve it, a resolution is passed and recorded in the Directors' Minute Book. Particulars are then entered in the Register of Transfers, the transfers being numbered in consecutive order. A new share certificate is made out for the transferee. If the shares transferred form only part of a shareholder's holding, it is the practice to issue a balance certificate to the transferor. A fee of 2s. 6d. is usually charged in respect of each transfer.

Example. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd.—

25th June, 500 shares (1–500) from M. B. Barker to I. L. Mensper; No. of transfer deed, No. 1.

15th July, 500 shares (501–1,000) from M. B. Barker to E. O. Prince.

4th August, 1,000 shares (24,501–25,500) from J. F. Longley to T. P. Retrop.

15th September, 200 shares (25,501–25,700) from J. F. Longley to J. F. Dalton.

10th November, 500 shares (25,701–26,200) from J. F. Longley to Henry A. Johnson, 65 Old Steine, Brighton.

[1] If all the issued shares, or all those of a particular class, are fully paid up and rank equally for all purposes, none of those shares needs a distinguishing number.

41 **REGISTER OF TRANSFERS**

No. of Transfer	Date Transfer Registered	Transferor's S.L. Folio	Transferor's Name	Transferor's Address	S.L. Folio	Name
	19..					
1	*June* 25	101	*Barker, M. B.*	71 *Lime St., Barnes*	105	*Menspet, I. L.*
2	*July* 15	101	" "	" " "	106	*Prince, E. O.*
3	*Aug.* 4	110	*Longley, J. F.*	6 *Park Drive, Bromfield*	107	*Retrop, T. P.*
4	*Sept.* 15	110	" "	" " "	103	*Dalton, J. F.*
5	*Nov.* 10	110	" "	" "	111	*Johnson, Henry A.*
6	*Dec.* 15	110	" "	" " "	112	*Thorpe, Fritz B.*

15 December, 500 shares (26,201-26,700) from J. F Longley to Fritz B. Thorpe, 9 Minstrel Street, Hastings.

Write up the company's Register of Transfers. (See above.)

Forged Transfers. If a forged transfer is passed by the directors, the transferee acquires no rights to the shares mentioned therein, even though he may have received a share certificate from the company; and his name may be removed from the Register of Members. The company remains liable to the true owner for any dividends he may have lost through their action, and it can be compelled to re-enter his name on the Register of Members in respect of such shares. The Forged Transfers Acts, 1891 and 1892, give power to joint stock companies, local authorities, incorporated friendly societies, and building or other provident societies to charge an additional fee on each transfer registered in order to provide a fund out of which to compensate the *transferee* for any loss sustained under a forged transfer.

Blank Transfer. A blank transfer is one signed by the transferor, but in which the name of the transferee and the date of execution are not filled in. It is usually deposited with the lender, together with the share certificate concerned, as security for a loan. The company will not, of course, recognize a blank transfer; but it gives the holder an equitable right to the shares mentioned therein. If desired, the necessary particulars are filled in and the transfer duly registered, thereby giving the holder the legal title to such shares.

Certification of Transfers. This is a practice that has grown up owing to the exigencies of Stock Exchange procedure. If a seller's share certificate includes more shares than he wishes to dispose of, he cannot hand it over to the buyer along with the transfer deed; so he takes his certificate and the transfer to the company's office, and has his transfer "certificated." If the documents are in order, the secretary writes or stamps on them a note similar to the following—

(ORDINARY SHARES) 41

Transferee's Address	Shares Transferred No.	Distinctive Numbers From	Distinctive Numbers To	Amount Paid Up	No. of New Certificate	Remarks
				£		
25 *Leyton St., Boro, S.E.*1	500	1	500	375	11	
12 *Temple Chambers, E.C.*1	500	501	1,000	375	12	
2 *Lucas Street, Bexley*	1,000	24,501	25,500	750	13	
194 *Mildmay Park, N.*1	200	25,501	25,700	150	14	
65 *Old Steine, Brighton*	500	25,701	26,200	375	15	
9 *Minstrel St., Hastings*	500	26,201	26,700	375	16	

Certificate No. ..216...for......500......Shares of......£1..................each, ...15s.......per share paid up, numbered......781.......to.........1280.......... inclusive, lodged at the Company's registered office this..........14*th*.......... day of *September*.

19..   ....*A. Briller*..........., Secretary.

The buyers and their brokers then act on the faith of this certification just the same as if the certificate had been lodged with themselves. No fee is charged for certification. The object of it is to satisfy the transferee that the transferor can give a good title to the shares mentioned in the transfer. The old certificate is at once cancelled, a new certificate is eventually forwarded to the transferee, and a balance certificate to the transferor. Under Section 79 of the Companies Act, 1948, the certification of a transfer is a representation by the company that there have been produced to the company such documents as on the face of them show a prima facie title to the shares. The certification does not represent that the transferor has any title to the shares but if any person acts on the faith of a certification made negligently by the company, the company will be under the same liability as if it had been made fraudulently.

Scrip. This term is a Stock Exchange contraction for the word "subscription." It denotes a *provisional* certificate for shares or debentures in a joint stock company, or bonds of a Government loan. The scrip certificate is issued when the allotment money is paid, and is exchanged in due course for the share certificate or bond when all the instalments have been paid. *The terms "scrip" and "share certificate" are often used, however, as if synonymous.*

The difference between a share certificate and a scrip certificate will be seen by reference to the illustrations on pages 532 and 533 respectively.

On the back of the scrip certificate will appear the dates of the various payments, similar to the following—

Date	Description of Payment	Rate	Amount Paid	Signature of Secretary
19..			£	
Feb. 15	*Application*	10%	10	*T. Briller*
,, 25	*Allotment*	20%	20	*T. Briller*
May 15	*First Call*	30%	30	*T. Briller*
Sept. 15	*Second Call* . . .	40%	40	*T. Briller*

Register of Members. This is a book ruled in tabular form, and, in addition to stating the name and address of each shareholder, and the date of becoming and ceasing to be a member, contains the number and distinctive numbers of shares acquired and transferred, the amount paid or agreed to be considered as paid on the shares of each member. Where shares are partly paid a cash account for each member showing amounts called and paid up is incorporated, forming the Share Ledger. There is no standard ruling. For a specimen see page 531. The total of the balances in this Register should always agree with the Capital Account in the double entry books.

Separate registers are usually kept for each class of share.

Further Statutory Provisions. By the Companies Act, 1948, no notice of any trust is to be entered on the Register of Members. The Register must be kept at the registered office of the company, except that

(1) if the work of making up is done at another office it may be kept at that office;

(2) if the company arranges with another person to make up the register it may be kept at the office of that person.

It must be open to the inspection of any member gratis, and to the inspection of any other person on payment of a fee not exceeding 1s. This right of inspection applies only to a "going" concern; after liquidation has been decided upon, application must be made to the Court. Any member or other person may acquire a copy of the Register, or of any part of it, on payment of the prescribed fee. Circular-advertising agencies generally avail themselves of this privilege in order to obtain lists of the investing public. A company may, on giving notice by advertisement in some paper circulating in the district in which the registered office is situate, close the Register for any time or times not exceeding in the whole thirty days in each year. The Court has power to rectify the Register in case of mistakes or omissions. The Register of

REGISTER OF MEMBERS AND SHARE LEDGER

Name: Brown, Joseph.
Address: The Firs, Guiseley, Leeds.

Date Entered as a Member: 12th November, 19. .
Date Ceased to be a Member:

CASH ACCOUNT

Date	Particulars	Folio	Amount Called Up Per Share			Total Amount Called Up			Date	Particulars	Folio	Total Amount Paid Up		
			£	s.	d.	£	s.	d.				£	s.	d.
19—									19—					
Nov. 12	To Application . . .	1		5	–	250	–	–	Oct. 16	By Cash		250	–	–
	,, Allotment . . .	1		5	–	250	–	–	Nov. 16	,, Cash		250	–	–
19—									19—					
Jan. 4	,, Call			5	–	375	–	–	Jan 4	,, Cash		375	–	–

[*Left-hand side*]

REGISTER OF MEMBERS AND SHARE LEDGER (*contd.*)

SHARES ACCOUNT

Shares Acquired								Shares Transferred								Balance			
Date	Folio	No. of Shares	Distinctive No.		Amount Paid Up			Date	Folio	No. of Shares	Distinctive No.		Amount Paid Up			No. of Shares	Amount Paid Up		
			From	To	£	s.	d.				From	To	£	s.	d.		£	s.	d.
19—								19—											
Nov. 12	1	1,000	801	1,800	250	–	–												
16					250	–	–	Dec. 12		200	801	1,000	100	–	–	800	400	–	–
Dec. 28		700	2,001	2,700	350	–	–									1 500	750	–	–
19—																			
Jan. 4					375	–	–									1,500	1125	–	–

[*Right-hand side*]

No.....................

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1948.)

CAPITAL £100,000.

50,000 Ordinary Shares of £1 each.

50,000 6% Preference Shares of £1 each.

SHARE CERTIFICATE.

THIS IS TO CERTIFY that..

of ....

is the Registered Proprietor of............................6% Preference Shares of £1 each, numbered...................to..................inclusive in the Waldron Manufacturing and Trading Company, Limited, subject to the provisions of the Memorandum and Articles of Association of the Company, and that there has been paid in respect to each of the said Shares the sum of

....

....

GIVEN UNDER THE COMMON SEAL of the Company this ....day of..............................19........

....
....} *Directors.*

SEAL

....

Secretary.

No Transfer of the above Shares can be made without the production of this Certificate.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act, 1948.)

ISSUE OF £10,000 DEBENTURES in BONDS of £100 EACH, bearing interest at £5 per cent per annum on the amount for the time being paid up thereon.

SCRIP CERTIFICATE.

No.....127........

THIS IS TO CERTIFY that..

of..

is entitled upon payment of all instalments when due, and subject to surrendering all receipts for such instalments, and also this SCRIP CERTIFICATE, to.......................DEBENTURES of £................... each in the above-named Company.

On completion of the payments this Certificate is to be surrendered to the Company to be exchanged for definitive Debentures.

This Certificate is issued subject to the conditions contained in the Prospectus dated the.......................day of...............................19.......

GIVEN UNDER THE COMMON SEAL of the Company this ....day of...........................19........

....
....
} *Directors.*

SEAL

....
Secretary.

N.B.—The instalments paid will be indorsed on the back hereof by the Company on production of the Bankers' receipts.

Members is prima facie evidence of any matters directed or authorized by the Act to be inserted therein. A company whose objects comprise the transaction of business in a colony may, if so authorized by its Articles, keep a branch Register of Members in that colony, and such Dominion Register is deemed to be part of its principal Register. A copy of each entry must be transmitted to the registered office in order that duplicate of such Register may be kept there.

Posting of Share Ledger. The Register of Members and Share Ledger will be posted up in stages as follows—

1. The names, addresses, number of shares, distinctive numbers, amount due on application and allotment will be entered up from the Application and Allotments Book (or sheets) into the various shareholders' accounts. The cash received on application and allotment will be posted from the Shareholders' Cash Book to the same accounts.

2. The amounts due on calls from time to time will be posted from the Call Book to the debit of the individual shareholders' accounts, and the cash received on account of calls will be credited from the Shareholders' Cash Book to the same accounts.

3. The shares transferred from time to time will be posted from the Register of Transfers to the shareholders' accounts concerned.

A debit balance in the Cash Account of any shareholder will indicate calls in arrear; while a credit balance therein will denote calls paid in advance.

At balancing time the total of the balances in the various shareholders' accounts should equal the total amount of Called-up Capital after adjustment of any Calls in Advance and Calls in Arrear.

Folios. In the posting of the Share Ledger folio numbers must, of course, be inserted in order to facilitate subsequent reference. In the statutory and statistical books shown in the worked examples, and which have been posted to the Share Ledger, the first page of each book has not been numbered page 1, but *distinctive* folios have been adopted, viz. 21, 41, and so on. This has been done in order to make the posting clearer to the student, and to enable him to trace the posting references immediately. With a set of model books all numbered page 1, there would, to the student, be no ready or definite clue as to which book was referred to. In actual practice, however, the first page of each book would of course commence at page 1, no matter how many books there were.

Plan of Recall of Columns Comprising a Share Ledger. Students seem nonplussed when called upon to prepare the forms

of statistical books, and to aid them in their difficulty a "plan of recall" as applied to the rulings of a Share Ledger is given below—

Take a sheet of foolscap lengthwise (lines being "perpendicular") and divide it into two equal parts.

Having done this, the left half must be headed "Cash Account" and the right half headed "Shares Account." Next, fill in the "Cash Account" with the usual simple ledger account rulings—namely (*a*) date, (*b*) particulars, (*c*) folio, (*d*) amount. This done, the column for "Amount called up per share" will be remembered and must accordingly be placed between columns (*c*) and (*d*). On completion of the Cash Account rulings, the student will find particulars regarding shares being recalled, and the three divisions regarding the statistical records of shares will occur—(*a*) Shares acquired, (*b*) shares transferred, (*c*) balance. Once the divisions have been made, the appropriate rulings peculiar to them will soon fall in line. As (*a*) and (*b*) are ruled alike, the following columns will be duplicated—(*a*) Date, (*b*) Folio, (*c*) No. of Shares, (*d*) Distinctive Numbers (from — to —), (*e*) Amount. The "Balance" division will easily yield its columns, because it will readily occur to the student that the difference between the number of shares acquired and transferred must be shown; also that the balance of money received to date on the shareholding is necessary; hence, the last two columns, namely, (*a*) No. of Shares, and (*b*) Amount Paid-up, will be ruled.

Register of Stockholders. Where shares have been converted into stock, the Register of Members will show the amount of stock held by each member instead of the particulars of shares held. As stock must be fully paid the Register of Members may be simplified as shown on the next page.

Calls. The Call Book or Sheets are in tabular form and a suitable ruling is given on page 539. A notice of the call to the shareholders is frequently dispensed with when the calls making the shares fully paid are made in quick succession in accordance with the terms of the prospectus. Receipt forms are attached at the foot of the Letters of Allotment and these should act as a sufficient reminder. Where the shares remain partly paid for any length of time, notices of calls *must* be sent out.

The clerical work follows very closely that already described in connexion with the application and allotment, as will be seen from the example that follows.

The call must be made by a resolution of the Board of Directors, evidence of which is contained in the Directors' Minute Book.

Interest on Calls. Columns are provided, in the Call Book, for interest. Some shareholders may not be able to pay the whole of the amount due from them within the time stipulated by the Call Notice. In such cases, an extension of time is granted to such

REGISTER OF STOCKHOLDERS

NAME ....

ADDRESS ....

....

OCCUPATION ....

Date entered as a Member ....

Date ceased to be a Member ....

Stock Acquired					Stock Transferred				Balance	
Date	Folio	Amount	No. of Certificate	Transferor's Folio in Register	Date	Folio	Amount	Transferee's Folio in Register	Date	Amount

shareholders on condition that they pay interest on the sum due up to the actual time of payment. Again, some shareholders pay their shares in full, not wishing to be troubled by constant calls. In these cases, interest may be allowed by the company. (See regulations 18 and 21 of Table A.)

Example. On 5th May the directors of the Waldron Manufacturing and Trading Co., Ltd., made a first Call of 5s. per share on the Ordinary Shares. The Call was payable by the 20th May, and the following amounts were received—

19..				£	s.	d.
May	9.	E. Clarke	1 share	-	5	-
,,	11.	F. Evans	1 ,,	-	5	-
,,	13.	T. P. Retrop	2,495 shares	123	15	-
,,	14.	E. O. Prince	1 share	-	5	-
,,	15.	J. F. Dalton	1 ,,	-	5	-
,,	17.	J. F. Longley	5,500 shares	1,375	-	-
,,	18.	M. B. Barker	2,000 ,,	250	-	-
,,	20.	I. L. Mensper	1 share	-	5	-

Barker and Retrop were allowed till 20th June to pay the balance, plus interest at 5 per cent, on which date the sums due (including interest thereon) were duly received. Write up the Call Book and the Shareholders' Cash Book. (See pages 538–539.)

With a view to consolidating the separate illustrations, the Register of Members and Share Ledger on page 540 and the following pages is compiled from the Shareholders' Cash Book and Application and Allotments Book on pages 523 and 524, Register of Transfers on pages 526 and 528, and Cash Book and Call Book on pages 538 and 539.

Debenture Application and Allotments Book. This is a book ruled in tabular form to record the names and addresses of all applicants for debentures, the number of debentures applied for, and the amount deposited with such applications. Additional columns are also provided to record the number of debentures actually allotted, their distinctive numbers, the balance due on allotment, and the amounts subsequently received thereon.

Procedure in Connexion with Applications and Allotment of Debentures. The procedure in connexion with applications for debentures and allotments thereof is very similar to that adopted with respect to shares. A printed form is filled in, and the requisite money forwarded to the company's bankers. Allotments are then made, and the further sums payable duly remitted to the company's bankers. If any applications are not accepted, the deposit money is returned in full.

73 SHAREHOLDERS' CASH BOOK 73

Dr. (ORDINARY SHARES) *Cr.*

Date	Receipts	S.L. Folio	Amount	Date	Payments	S.L. Folio	Amount
19..			£ s. d.	19..			£ s. d.
May 9	To First Call A/c			May 20	By Transfer to General Cash Book . .		1,750 - -
9	Clarke, E. .	102	5 –				
11	Evans, F. .	104	5 –				
13	Retrop, T. P.	107	123 15 –				
14	Prince, E. O.	106	5 –				
15	Dalton, J. F. .	103	5 –				
17	Longley, J. F.	110	1,375 - –				
18	Barker, M. B.	101	250 - –				
20	Mensper, I. L.	104	5 –				
			1,750 - –				1,750 - -
June 20	To First Call A/c			June 20	By Transfer to General Cash Book . .		750 - -
20	Barker, M. B.	101	250 - –	20	Ditto . .		3 3 9
20	Retrop, T. P	107	500 - –				
20	,, Interest—						
	Barker, M. B.	101	1 1 3				
	Retrop, T P.	107	2 2 6				
			753 3 9				753 3 9

CALL BOOK (ORDINARY SHARES)

FIRST CALL OF 5s. PER SHARE MADE MAY 5TH AND PAYABLE BY MAY 20TH

S.L. Folio	Name	Address	No. of Shares held	Amount due	Amount paid	Arrears: Amount due	Arrears: Days	Arrears: Interest	Calls paid in Advance	Remarks
				£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	
101	*Barker, M. B.*	*71 Lime Street, Barnes, S.W.13*	2,000	500 – –	250 – –	250 – –	31	1 1 3		*Paid June 20th*
102	*Clarke, E.*	*120 Mare Street, Hackney, E.8*	1	5 –	5 –					
103	*Dalton, J. F.*	*194 Mildmay Park, N.1*	1	5 –	5 –					
104	*Evans, F.*	*96 Rood Lane, Brixton, S.W.2*	1	5 –	5 –					
105	*Mensper, I. L.*	*25 Leyton Street, Boro, S.E.1*	1	5 –	5 –					
106	*Prince, E. O.*	*12 Temple Chambers, Holborn, E.C.1*	1	5 –	5 –					
107	*Retrop, T. P.*	*2 Lucas Street, Bexley*	2,495	623 15 –	123 15 –	500 – –	31	2 2 6		*Paid June 20th*
110	*Longley, J. F.*	*6 Park Drive, Bromfield*	5,500	1,375 – –	1,375 – –					
			10,000	2,500 – –	1,750 – –	750 – –		3 3 9		

101

REGISTER OF MEMBERS AND SHARE

Name: *Barker, Matthew B.*
Address: 71 *Lime Street, Barnes, London, S.W.*13

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
			£ s. d.	£ . d.	19..			£ s. d.
Jan. 15	To Appl. and Allot. .	21	10 –	1,000 – –	Jan. 2	By Cash . . .	71	312 10 –
					20	,, ,, . . .	72	687 10 –
				1,000 – –				1,000 – –
May 5	To First Call . .	61	5 –	500 – –	May 18	By Cash . . .	73	250 – –
June 20	,, Interest . .	61		1 1 3	20	,, ,, . . .	,,	250 – –
					20	,, ,, (Interest) .	,,	1 1 3
				501 1 3				501 1 3

102

Clarke, Edward
120 *Mare Street, Hackney, London, E.*8

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19..			£ s. d.	£ s. d.	19..			£ s. d.
Jan. 15	To Appl. and Allot. .	21	10 –	10 –	Jan. 3	By Cash . . .	71	2 6
					20	,, ,, . . .	72	7 6
				10 –				10 –
May 5	To First Call . .	61	5 –	5 –	May 9	By Cash . . .	73	5 –

103

Dalton, John F.
194 *Mildmay Park, London, N.*1

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19..			£ s. d.	£ s. d.				£ s. d.
Jan 15	To Appl. and Allot. .	21	10 –	10 –	Jan. 4	By Cash . . .	71	2 6
					20	,, ,, . . .	72	7 6
				10 –				10 –
May 5	To First Call . .	61	5 –	5 –	May 15	By Cash . . .	73	5 –

104

Evans, Fred
96 *Rood Lane, Brixton, London, S.W.*2

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19..			£ s. d.	£ s. d.	19..			£ s. d.
Jan. 15	To Appl. and Allot. .	21	10 –	10 –	Jan. 4	By Cash . . .	71	2 6
					20	,, ,, . . .	72	7 6
				10 –				10 –
May 5	To First Call . .	61	5 –	5 –	May 11	By Cash . . .	73	5 –

LEDGER (ORDINARY SHARES) 101

Date entered as a Member: *Jan. 15th*, 19..
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired						Shares Transferred						Balance	
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Shares	Amount paid up
19..					£ s. d.						£ s. d.		£ s. a.
Jan. 15	21	2,000	1	2,000								2,000	1,000 – –
												2,000	1,500 – –
						19..							
						June 25	41	500	1	500	375 – –	1,500	1,125 – –
						July 15	41	500	501	1,000	375 – –	1,000	750 – –

102

Jan. 15th, 19..

19..					£ s. d.	19..					£ s. d.		£ s. d.
Jan. 15	21	1	—	2,001								1	10 –
												1	15 –

103

Jan. 15th, 19..

19..					£ s. d.	19..					£ s. d.		£ s. d.
Jan. 15	21	1	—	2,002								1	10 –
												1	15 –
Sept. 15	41	200	25,501	25,700	150 – –							201	150 15 –

104

Jan. 15th, 19..

19..					£ s. d.	19..					£ s. d.		£ s. d.
Jan. 15	21	1	—	2,003								1	10 –
												1	15 –

105

REGISTER OF MEMBERS AND SHARE

Name: *Mensper, Isaac L.*
Address: 25 *Leyton Street, Boro, London, S.E.*1

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19..			£ s. d.	£ s. d.	19..			£ s. d.
Jan. 15	To Appl. and Allot.	21	10 –	10 –	Jan. 6	By Cash	71	2 6
					20	,, ,,	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 20	By Cash	73	5 –

106

Prince, Ernest O.
12 *Temple Chambers, Holborn, London, E.C.*1

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19..			£ s. d.	£ s. d.	19..			£ s. d.
Jan. 15	To Appl. and Allot.	21	10 –	10 –	Jan. 6	By Cash	71	2 6
					20	,, ,,	72	7 6
				10 –				10 –
May 5	To First Call	61	5 –	5 –	May 14	By Cash	73	5

107

Retrop, Thomas P.
2 *Lucas Street, Bexley*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19..			£ s. d.	£ s. d.	19..			£ s. d.
Jan. 15	To Appl. and Allot.	21	10 –	1,247 10 –	Jan. 7	By Cash	71	375 – –
					20	,, ,,	72	872 10 –
				1,247 10 –				1,247 10 –
May 5	To First Call	61	5 –	623 15 –	May 13	By Cash	73	123 15 –
June 20	,, Interest	,,		2 2 6	June 20	,, ,,	,,	500 – –
					30	,, ,, (Interest)	,,	2 2 6
				625 17 6				625 17 6

108

Waldron, Frank T. (*Vendor*)
1 *Penley Mansions, Sidcup*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
19—			£ s. d.	£ s. d.				£ s. d.
Jan. 15	To Share Capital	J.		15,000 – –		Issued as fully paid		15,000 – –

LEDGER (ORDINARY SHARES) **105**

Date entered as a Member: *Jan.* 15*th*, 19..
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired						Shares Transferred						Balance	
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Shares	Amount paid up
19..					£ s. d.								£ s. d.
Jan. 15	21	1	—	2,004								1	10 –
												1	15 –
June 25	41	500	1	500	375 – –							501	375 15 –

106

Jan. 15*th*, 19..

19..					£ s. d.								£ s. d.
Jan. 15	21	1	—	2,005								1	10 –
												1	15 –
July 15	41	500	501	1,000	375 – –							501	375 15 –

107

Jan. 15*th*, 19..

19..					£ s. d.	19..							£ s. d.
Jan. 15	21	2,495	2,006	4,500								2,495	1,247 10 –
												2,495	1,871 5 –
Aug. 4	41	1,000	24,501	25,500	750 – –							3,495	2,621 5 –

108

Jan. 15*th*, 19..

19..						19..							£ s. d.
Jan. 15	21	15,000	4,501	19,500								15,000	15,000 – –

109 **REGISTER OF MEMBERS AND SHARE**

Name: *Goode, Ellen (Miss)*
Address: 114 *High Road, Sydenham*

Dr. CASH ACCOUNT *Cr.*

Date	Particulars	Folio	Amount called up per Share	Total Amount called up	Date	Particulars	Folio	Total Amount paid up
				£ s. d.				£ s. d.
19.. Jan. 15	To Share Capital .	J.		5,000 – –		Issued as fully paid .		5,000 – –

110

Longley, James F.
Park Drive, Bromfield

			£ s. d.	£ s. d.				£ s. d.
19.. Jan. 15	To Appl. and Allot. .	21	10 –	2,750 – –	19.. Jan. 8	By Cash . . .	71	1,250 – –
					20	" " . . .	72	1,500 – –
				2,750 – –				2,750 – –
May 5	To First Call . .	61	5 –	1,375 – –	May 17	By Cash . . .	73	1,375 – –

111

Johnson, Henry A.
65 *Old Steine, Brighton*

				£ s. d.				£ s. d.

112

Thorpe, Fritz B.
9 *Minstrel Street, Hastings*

								£ s. d.

LEDGER (ORDINARY SHARES) **109**

Date entered as a Member: *Jan.* 15*th*, 19..
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired						Shares Transferred						Balance	
Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	Date	Folio	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount paid up	No. of Shares	Amount paid up
					£ s. d.	19..					£ s. d.		£ s. d.
19.. Jan. 15	21	5,000	19,501	24,500								5,000	5,000 - -

110

Jan. 15*th*, 19..

					£ s. d.						£ s. d.		£ s. d.
19.. Jan. 15	21	5,500	24,501	30,000								5,500	2,750 - -
												5,500	4,125 - -
						19.. Aug. 4	41	1,000	24,501	25,500	750 - -	4,500	3,375 - -
						Sept. 15	41	200	25,501	25,700	150 - -	4,300	3,225 - -
						Nov. 10	41	500	25,701	26,200	375 - -	3,800	2,850 - -
						Dec. 15	41	500	26,201	26,700	375 - -	3,300	2,475 - -

111

Nov. 10*th*, 19..

					£ s. d.	19..					£ s. d.		£ s. d.
19.. Nov. 10	41	500	25,701	26,200	375 - -							500	375 - -

112

Dec. 15*th*, 19..

					£ s. d.	19..					£ s. d.		£ s. d.
19.. Dec. 15	41	500	26,201	26,700	375 - -							500	375 - -

Dividend Book. This is a book, ruled in tabular form, which records at balancing time the names of the shareholders, the amount paid up on the shares held by each individual, the gross amount of dividend due, the amount of tax (if any) deductible, and the net amount of dividend payable to each shareholder. Separate books are kept for the dividends on different classes of shares, Ordinary, Preference, Deferred, etc.

Example. The directors of the Waldron Manufacturing and Trading Co., Ltd., resolved to pay a dividend of 10 per cent on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. From the particulars furnished in the Register of Ordinary Shares, write up the Ordinary Share Dividend Book.

ORDINARY SHARE DIVIDEND BOOK

31st DEC., 19..

O.S.L. Folio	Name	Amount paid up on Shares	Amount of Dividend at 10%	Amount of Tax at 9s.	Net Dividend	Remarks
		£ s. d.	£ s. d.	£ s. d.	£ s. d.	
101	Barker, M. B.	750 - -	75 - -	33 15 -	41 5 -	
102	Clarke, E.	15 -	1 6	8	10	
103	Dalton, J. F.	150 15 -	15 1 6	6 15 8	8 5 10	
104	Evans, Fred	15 -	1 6	8	10	
105	Mensper, I. L.	375 15 -	37 11 6	16 18 2	20 13 4	
106	Prince, E. O.	375 15 -	37 11 6	16 18 2	20 13 4	
107	Retrop, T. P.	2,621 5 -	262 2 6	117 19 2	144 3 4	
108	Fairleaf, Frank	15,000 - -	1,500 - -	675 - -	825 - -	
109	Goode, Ellen	5,000 - -	500 - -	225 - -	275 - -	
110	Longley, J. F.	2,475 - -	247 10 -	111 7 6	136 2 6	
111	Johnson, H. A.	375 - -	37 10 -	16 17 6	20 12 6	
112	Thorpe, F. B.	375 - -	37 10 -	16 17 6	20 12 6	
	£	27,500 - -	2,750 - -	1,237 10 -	1,512 10 -	

Register of Directors and Secretaries. This is one of the statutory books. The Companies Act, 1948, Section 200, requires every company to keep at its registered office a register containing the names, addresses, and occupations and other particulars of its directors and the name and address of its secretary, and to send to the registrar of companies a copy thereof, and from time to time to notify to the registrar any change among its directors or secretaries.

Register of Directors' Shareholdings. Section 195 of the Companies Act, 1948, requires every company to keep a register showing the number, description and amount of any shares in or debentures of the company (or its holding or subsidiary company) held by each director (including those held in trust for him or of which he has the right to become the holder). In the case of purchases or sales of shares or debentures after 1st July, 1948, the

date of the transaction and the price of the shares or debentures must also be shown.

REGISTER OF DIRECTORS AND SECRETARIES

PARTICULARS OF DIRECTORS

Present Christian Name or Names and Surname	Any Former Christian Name or Names or Surname	Nationality	Usual Residential Address	Business Occupation and Particulars of other Directorships	Date of Birth

PARTICULARS OF THE PERSON WHO IS SECRETARY

Present Christian Name or Names and Surname	Any Former Christian Name or Names and Surname	Usual Residential Address

REGISTER OF DIRECTORS' SHAREHOLDINGS

Name of Director	Number of Shares or Debentures	Whether Shares or Debentures	Description	Tota Nominal Amount	Name of Company with respect to which registration is required	Nature of Transaction	Date of Acquisition or Cessation of Interest	Price	Nature and Extent of Director's Interest

Minute Book. This is another of the statutory books. The Companies Act, Section 145, enacts that every company must cause minutes of all proceedings of general meetings and (where there are directors or managers) of its directors and managers to be entered in books kept for that purpose. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, is evidence of the proceedings.

In most companies two books are kept: one, called the Shareholders' or General Minute Book, to record the proceedings of the members in general meetings; and the other, called the Directors' Minute Book, to record the proceedings of board meetings. The books should preferably be provided with an alphabetical index, in order to facilitate reference.

Share Warrant Register. This is a register giving particulars of the share warrants which have been issued by the company. It is ruled in tabular form.

Share Warrant. This is a document under the seal of the company, which entitles the holder of it to the shares specified therein. It is subject to a stamp duty equal to three times the amount of the *ad valorem* duty chargeable on a deed transferring shares of the same nominal value, i.e. £6 per cent. It is transferable by mere delivery; and this fact makes it a very convenient instrument, particularly in the case of companies having foreign shareholders. The following is a specimen—

No.....................

ZENO TRADING COMPANY, LIMITED.

(Incorporated under the Companies Act, 1948.)

CAPITAL £100,000.

50,000 ORDINARY SHARES OF £1 EACH.
50,000 6% PREFERENCE SHARES OF £1 EACH.

Stamp.

SHARE WARRANT.

THIS IS TO CERTIFY that the Bearer of this Warrant is the proprietor of.............. fully paid-up 6% Preference Shares of £1 each, numbered.............. to.............. inclusive in the ZENO TRADING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company.

GIVEN UNDER THE COMMON SEAL of the Company this.............................. day of.............................. 19.......

SEAL

....
.... } *Directors.*

....
Secretary.

The bearer of a share warrant is, subject to the Articles of the company, entitled on surrendering it for cancellation, to have his name entered as a member in the Register of Members. The date of such surrender must also be entered in the Register as if it were the date at which a person commenced to be a member.

Statutory Provisions. Section 83 of the Companies Act enacts as follows—

(1) A company limited by shares, if so authorized by its articles, may, with respect to any fully paid up shares, issue under its common seal a warrant stating that the bearer of the warrant is entitled to the shares therein specified, and may provide, by coupons or otherwise, for the payment of the future dividends on the shares included in the warrant.

(2) Such a warrant as aforesaid is in this Act termed a "share warrant."

(3) A share warrant shall entitle the bearer thereof to the shares therein specified, and the shares or stock may be transferred by delivery of the warrant.

Register of Probates and Letters of Administration. The Probate is the official evidence that the person named therein is the executor of a deceased shareholder, and Letters of Administration authorize the person named therein to administer the estate of a shareholder who has died intestate. Both documents bear the seal of the Court of Probate.

When a shareholder dies leaving an executor, or if, for any reason, there is no executor and the Court appoints an Administrator, the Probate or Letters of Administration are lodged at the company's office by the executor or administrator. Such person, being the legal personal representative, has two alternatives—

1. He may (unless the Articles give the company the right to insist upon a personal representative becoming registered as a member or selling the shares) content himself with simply registering his right to deal with the deceased shareholder's stocks and shares in the company.

2. He may, when lodging the probate or letters of administration, ask to be registered as a member.

If the first course is adopted the secretary of the company makes a memorandum in the Share Register against the deceased shareholder's name.

"Probate or
Letters of administration granted on ....

to .... of etc., Executor or
Administrator.

Date ...."

He makes a similar memorandum on the back of the share certificate and returns it endorsed to the executor or administrator. The advantages of this procedure to the executor are—

(*a*) He is liable only to the extent of the estate for any calls on the shares. (*b*) He can transfer the shares by virtue of Section 76 of the Companies Act.

If the second alternative is adopted by the executor and he desires to become registered as a member, the secretary closes the deceased shareholder's account in the Share Register and opens a new account in the name of the executor, who becomes thereby responsible *personally* for any uncalled liability on the shares. The procedure necessarily depends on the Articles of Association. Sometimes, a "Letter of Request" is all that is required, but in many cases the directors insist upon a transfer from the personal representative *as executor* to the personal representative *personally*.

In large companies, a Register is frequently kept, giving the deceased shareholders' names and folios in the Share Ledger, the names and addresses of the executors or administrators, date of death, date of probate, date probate was registered, and any further particulars that may be thought desirable.

Annual Return. Section 124 of the Companies Act, 1948, directs that—

1. Every company having a share capital shall, once at least in every year, make a return containing with respect to the registered office of the company, registers of members and debenture holders, shares and debentures, indebtedness, past and present members and directors and secretary, the matters specified in Part I of the Sixth Schedule to this Act, and the said return shall be in the form set out in Part II of that Schedule or as near thereto as circumstances admit:

Provided that—

(*a*) a company need not make a return under this subsection either in the year of its incorporation or, if it is not required by Section 131 of this Act to hold an annual general meeting during the following year, in that year;

(*b*) where a company has converted any of its shares into stock and given notice of the conversion to the registrar of companies, the list referred to in paragraph 5 of Part I of the Sixth Schedule must state the amount of stock held by each of the existing members instead of the amount of shares and the particulars relating to shares required by that paragraph;

(*c*) the return may, in any year, if the return for either of the two immediately preceding years has given as at the date of that return the full particulars required by the said paragraph 5, give only such of the particulars required by that paragraph as relates to persons ceasing to be or becoming members since the date of the last return and to shares transferred since that date or to changes as compared with that date in the amount of stock held by a member. . . .

Part I of the Sixth Schedule requires that the Annual Return shall contain—

1. The address of the registered office of the company.

2. (1) If the Register of Members is, under the provisions of this Act, kept elsewhere than at the registered office of the company, the address of the place where it is kept.

(2) If any register of holders of debentures . . . is . . . kept . . . elsewhere than at the registered office of the company, the address of the place where it is kept.

3. A summary, distinguishing between shares issued for cash and shares issued as fully or partly paid up otherwise than in cash, specifying the following particulars—

(*a*) the amount of the share capital of the company and the number of shares into which it is divided;

(*b*) the number of shares taken from the commencement of the company up to the date of the return;

(*c*) the amount called up on each share;

(*d*) the total amount of calls received;

(*e*) the total amount of calls unpaid;

(*f*) the total amount of the sums (if any) paid by way of commission in respect of any shares or debentures;

(*g*) the discount allowed on the issue of any shares issued at a discount or so much of that discount as has not been written off at the date on which the return is made;

(*h*) the total amount of the sums (if any) allowed by way of discount in respect of any debentures since the date of the last return·

(*i*) the total number of shares forfeited;

(*j*) the total amount of shares for which share warrants are outstanding at the date of the return and of share warrants issued and surrendered respectively since the date of the last return, and the number of shares comprised in each warrant.

4. Particulars of the total amount of the indebtedness of the company in respect of all mortgages and charges which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the registrar of companies under this Act. . .

5. A list—

(*a*) containing the names and addresses of all persons who, on the fourteenth day after the company's annual general meeting for the year, are members of the company, and of persons who have ceased to be members since the date of the last return or, in the case of the first return, since the incorporation of the company;

(*b*) stating the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return (or, in the case of the first return, since the incorporation of the company) by persons who are still members and have ceased to be members respectively and the dates of registration of the transfers;

(*c*) if the names aforesaid are not arranged in alphabetical order, having annexed thereto an index sufficient to enable the name of any person therein to be easily found.

6. All such particulars with respect to the persons who at the date of the return are the directors of the company and any person who at that date is the secretary of the company as are by this Act required to be contained with respect to directors and the secretary respectively in the Register of the Directors and Secretaries of the company.

Unless the company is an exempt private company there shall be annexed to the annual return—

(*a*) A written copy, certified both by a director and the secretary of the company to be a true copy, of every Balance Sheet laid before the company in general

meeting during the period to which the return relates (including every document required by the law to be annexed thereto).

(*b*) A copy, certified as aforesaid, of the report of the auditors on, and of the report of the directors accompanying, each such Balance Sheet. (Section 127.)

The documents to be annexed to the Balance Sheet are the Profit and Loss Account and any group accounts (Section 156).

A private company must send with the return—

(1) A certificate signed by a director and by the secretary that the company has not since the date of the last return (or in the case of the first return since the incorporation of the company) issued any invitation to the public to subscribe for any shares or debentures of the company.

(2) If the number of members, as shown by the return, exceeds fifty a certificate signed by a director and the secretary that the excess consists of employees of the company or past employees who were members whilst in the employment of the company and have since continued to be members.

An exempt private company must send a certificate similarly signed that the conditions mentioned in Section 129 (2) are satisfied at the date of the return and have been satisfied at all times since 1st July, 1948, or the incorporation of the company, whichever is the later.

Example. From the particulars recorded in the Ordinary Share Ledger, Transfer Register, Register of Directors, etc., prepare the company's Annual Return, and draw up a Balance Sheet. (See following pages.)

NOTE. The issue of the Preference shares has not been illustrated, but they are included in the Annual Return.

QUESTIONS

1. What books is a company compelled by law to keep?
2. What statistical books are usually kept by a company?
3. Explain the nature and use of an Application and Allotments Book.
4. Explain the following and their use: (*a*) letter of allotment, (*b*) letter of regret.
5. Explain the following: (*a*) letter of renunciation, (*b*) return of allotments.
6. What subsidiary Cash Books are used in connexion with the receipt of money on shares? What objection is raised against them? What alternative procedure is there?
7. Explain the nature and use of a Call Book.
8. How are calls made? What is a Notice of Call?
9. How does the question of interest arise in connexion with calls, and how is it treated?
10. Submit *pro forma* ruling of a Call Book, and enter therein six specimen entries.
11. Explain the nature and use of a Register of Transfers.
12. Submit *pro forma* ruling of a Register of Transfers and enter therein six specimen entries.
13. What are the provisions of the Companies Act with regard to share certificates?

Form of Annual Return of a Company having A Share Capital

Annual Return of .... *Waldron Manufacturing and Trading* ....

.... *Company* .... Limited,

made up to the .... *14th* .... day of .... *February* .... 19—

(being the fourteenth day after the date of the Annual General Meeting

for the year 19. .).

1. Address

Address of the registered office of the company.

....

....

2. Situation of Registers of Members and Debenture-holders

(*a*) ....

(Address of place at which the register of members is kept, if other than the registered office of the company.)

(*b*) ....

(Address of any place in Great Britain other than the registered office of the company at which is kept any register of holders of debentures of the company or any duplicate of any such register or part of any such register which is kept outside Great Britain.)

3. Summary of Share Capital and Debentures

(a) NOMINAL SHARE CAPITAL

1. Nominal share capital £........100,000........divided into:

50,000	*Ordinary* shares of	£1	each
50,000	*Preference* shares of	£1	each
	shares of		each
	shares of		each

(b) ISSUED SHARE CAPITAL AND DEBENTURES

	Number	Class	
2. Number of shares of each class taken up to the date of this return (which number must agree with the total shown in the list as held by existing members).	30,000	*Ordinary*	shares
	28,600	*Preference*	shares
			shares
			shares
			shares
			shares
			shares
3. Number of shares of each class issued subject to payment wholly in cash	10,000	*Ordinary*	shares
	28,600	*Preference*	shares
			shares
			shares
4. Number of shares of each class issued as fully paid up for a consideration other than cash.	20,000	*Ordinary*	shares
			shares
			shares
			shares
5. Number of shares of each class issued as partly paid up for a consideration other than cash and extent to which each such share is so paid up.		*Nil*	

	Number	Class	
6. Number of shares (if any) of each class issued at a discount.	*Nil*		shares
			shares
			shares
			shares

7. Amount of discount on the issue of shares which has not been written off at the date of this return. £........*Nil*........

			Number	Class	
8. Amount called up on number of shares of each class.	15*s.*	per share on	10,000	*Ordinary*	shares
	15*s.*	per share on	28,600	*Preference*	shares
	£	per share on			shares
	£	per share on			shares

9. Total amount of calls received, including payments on application and allotment and any sums received on shares forfeited. ....£29,650........

		Number	Class	
10. Total amount (if any) agreed to be considered as paid on number of shares of each class issued as fully paid up for a consideration other than cash.	£20,000			shares
				shares
		20,000	*ordinary*	shares
				shares
11. Total amount (if any) agreed to be considered as paid on number of shares of each class issued as partly paid up for a consideration other than cash.	£ *Nil* on			shares
				shares
				shares
				shares

12. Total amount of calls unpaid .... £ *Nil*

13. Total amount of the sums (if any) paid by way of commission in respect of any shares or debentures. £ *Nil*

14. Total amount of the sums (if any) allowed by way of discount in respect of any debentures since the date of the last return. £ *Nil*

	Number	Class	
15. Total number of shares of each class forfeited.			shares
	1,400	*Preference*	shares
			shares
			shares

16. Total amount paid (if any) on shares forfeited. £ 700

17. Total amount of shares for which share warrants to bearer are outstanding. £ *Nil*

18. Total amount of share warrants to bearer issued and surrendered respectively since the date of the last return.	Issued:	£ *Nil*
	Surrendered:	£ *Nil*

19. Number of shares comprised in each share warrant to bearer, specifying in the case of warrants of different kinds, particulars of each kind. *Nil*

4. Particulars of Indebtedness

Total amount of indebtedness of the company in respect of all mortgages and charges which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the registrar of companies under the Companies Act, 1948, or which would have been required so to be registered if created after 1st July, 1908. £ 10,000

5. List of Past and

List of persons holding shares or stock in the company on the fourteenth day or stock therein at any time since the date of the last return, or in the case of the *not arranged in alphabetical order, an index sufficient to enable*

Folio in Register Ledger containing particulars	Names and Addresses
O.S.L.	
101	*Matthew Barker*, 71 *Lime Street, Barnes*
102	*Edward Clarke*, 120 *Mare Street, Hackney, E.8*
103	*John Dalton*, 194 *Mildmay Park, London, N.1*
104	*Fred Evans*, 96 *Rood Lane, Brixton, S.W.2*
105	*Isaac Mensper*, 25 *Leyton Street, Boro, London, S.E.1*
106	*Ernest Prince*, 12 *Temple Chambers, Holborn, E.C.1*
107	*Thomas Retrop*, 2 *Lucas Street, Bexley*
108	*Frank Waldron*, 1 *Penley Mansions, Sidcup*
109	*Ellen Goode*, 114 *High Road, Sydenham*
110	*James Longley*, 6 *Park Drive, Bromfield*
111	*Henry Johnson*, 65 *Old Steine, Brighton*
112	*Fritz Thorpe*, 9 *Minstrel Street, Hastings*
P.S.L	
261	*Percy Holloway*, 57 *Luton Road, Bedford*
262	*Albert Cooper, The Cedars, Farnham, Surrey*
263	*Henry Edwards*, 3 *Green Lanes, Mitcham*
264	*James Newton*, 7 *The Meat Market, Reading*
265	*Frederick Archer*, 777 *High Street, Cardiff*
266	*Edward Greale*, 21 *Park Fields, Buckley*
267	*George Rawlings*, 114 *Maida Vale, London, W.9*
268	*Samuel Brooke*, 15 *Long Street, Burton*
269	*Rufus Lipton*, 42 *Littleton Street, Devizes*
270	*Claude Penley*, 15 *Tothill Mansions, Paignton*
271	*Percy Truefitt*, 12 *High Street, Wycombe*
272	*Oswald Vickers*, 179 *Greene Street, Thurston*

NOTES

If the return for either of the two immediately preceding years has given as at the date of that return the full particulars required as to past and present members and the shares and stock held and transferred by them, only such of the particulars need be given as relate to persons ceasing to be or becoming members since the date of the last return and to shares transferred since that date or to changes as compared with that date in the amount of stock held by a member.

Present Members.

after the annual general meeting for 19. ., and of persons who have held shares first return, of the incorporation of the company. *N.B.—If the names in the list are the name of any person to be readily found must be annexed.*

ACCOUNT OF SHARES						
Number of Shares held by existing Members at date of Return*†		Particulars of Shares transferred since the date of the last Return, or, in the case of the first Return, of the incorporation of the Company, by (*a*) persons who are still Members and (*b*) persons who have ceased to be Members‡				Remarks
		Number†		Date of Registration of Transfer		
Ord.	Pref.	Ord.	Pref.	(*a*)	(*b*)	
1,000		500		25 *June*, 19. .		*Mensper, I. L.*
		500		15 *July*, 19. .		*Prince, E. O.*
1						
201						
1						
501						
501						
3,495						
15,000						
5,000						
		1,000		4 *Aug*., 19. .		*Retrop, T. P.*
3,300		200		15 *Sept*., 19. .		*Dalton, J. F.*
		500		10 *Nov*., 19. .		*Johnson, H. A.*
		500		15 *Dec*., 19. .		*Thorpe, F. B.*
500						
500						
	3,000		300	2 *July*, 19. .		*Archer, F.*
	4,500		500	19 *Aug*., 19. .		*Brooke, S. L.*
	—					1400 *Pref. Shares forfeited*
	3,000		400	8 *Sept*., 19. .		*Rawlings, G.*
	5,300					
	2,000		1,000	22 *Oct*., 19. .		*Archer, F.*
	1,900					
	2,450					
	1,450					
			1,000	15 *Nov*., 19. .		*Truefitt, P.*
	3,000		1,000	19 *Nov*., 19. .		*Vickers, O.*
	1,000					
	1,000					
30,000	28,600					

* The aggregate number of shares held by each member must be stated, and the aggregates must be added up so as to agree with the number of shares stated in the Summary of Share Capital and Debentures to have been taken up.

† When the shares are of different classes these columns should be subdivided so that the number of each class held, or transferred, may be shown separately. Where any shares have been converted into stock the amount of stock held by each member must be shown.

‡ The date of registration of each transfer should be given as well as the number of shares transferred on each date. The particulars should be placed opposite the name of the transferor and not opposite that of the transferee, but the name of the transferee may be inserted in the "Remarks" column immediately opposite the particulars of each transfer.

6. Particulars of

Particulars of the persons who are directors

NAME (In the case of an individual, present Christian name or names and surname. In the case of a corporation, the corporate name)	Any former Christian Name or Names and Surname	Nationalit
Waldron, Frank T.		*British*
Retrop, Thomas	*Otto Braun*	*British*
Cooper, Albert O.		*British*
Arthur, Frederick		*British*
Longley, James F.		*British*
Penley, Claude N.		*U.S.A.*

Particulars of the person who is secretary of the company at the date of this return.

NAME (In the case of an individual, present Christian Name or Names and Surname. In the case of a corporation or a Scottish firm, the corporate or firm name)	Any former Christian Name or Names and Surname	USUAL RESIDENTIAL ADDRESS (In the case of a corporation or Scottish firm, the registered or principal office)
Shales, Cuthbert H.		34 *John Street, Mitcham*

NOTES

"Director" includes any person who occupies the position of a director by whatsoever name called, and any person in accordance with whose directions or instructions the directors of the company are accustomed to act.

"Christian name" includes a forename, and "surname," in the case of a peer or person usually known by a title different from his surname, means that title.

"Former Christian name" and "former surname" do not include—

(*a*) in the case of a peer or a person usually known by a British title different from his surname, the name by which he was known previous to the adoption of or succession to the title; or

(*b*) in the case of any person, a former Christian name or surname where that name or surname was changed or disused before the person bearing the name attained the age of eighteen years or has been changed or disused for a period of not less than twenty years; or

(*c*) in the case of a married woman the name or surname by which she was known previous to the marriage.

Directors and Secretaries

of the company at the date of this return.

Usual Residential Address (In the case of a corporation, the registered or principal office)	Business Occupation and particulars of other Directorships	Date of Birth
1 *Penley Mansions, Sidcup*	*Commercial Traveller*	12*th Jan.*, 1906
2 *Lucas Street, Bexley*	*None*	8*th Oct.*, 1899
The Cedars, Farnham	*None*	27*th Aug.*, 1912
777 *High Street, Cardiff*	*Printer*	30*th Sept.*, 1909
6 *Park Drive, Bromfield*	*None*	18*th June*, 1890
15 *Tothill Mansions, Paignton*	*Director, XYZ Ltd.*	15*th Oct.*, 1895

Signed...........*F. T. Waldron*........, Director.

Signed...........*C. H. Shales*............, Secretary.

The name of all bodies corporate incorporated in Great Britain of which the director is also a director, should be given, except bodies corporate of which the company making the return is the wholly-owned subsidiary or bodies corporate which are the wholly-owned subsidiaries either of the company or of another company of which the company is the wholly-owned subsidiary. A body corporate is deemed to be the wholly-owned subsidiary of another if it has no members except that other and that other's wholly-owned subsidiaries and its or their nominees. If the space provided in the form is insufficient, particulars of other directorships should be listed on a separate statement attached to this return.

Dates of birth need only be given in the case of a company which is subject to section 185 of the Companies Act, 1948, namely, a company which is not a private company or which, being a private company, is the subsidiary of a body corporate incorporated in the United Kingdom which is neither a private company nor a company registered under the law relating to companies for the time being in force in Northern Ireland and having provisions in its constitution which would, if it had been registered in Great Britain, entitle it to rank as a private company.

Where all the partners in a firm are joint secretaries, the name and principal office of the firm may be stated.

Certificates and other Documents accompanying Annual Return

CERTIFICATE TO BE GIVEN BY A DIRECTOR AND THE SECRETARY OF EVERY PRIVATE COMPANY (WHETHER AN EXEMPT PRIVATE COMPANY OR NOT)

We certify that the company has not since the date of* [the incorporation of the company/the last annual return] issued any invitation to the public to subscribe for any shares or debentures of the company.

Signed.............................., Director.

Signed.............................., Secretary.

FURTHER CERTIFICATE TO BE GIVEN AS AFORESAID IF THE NUMBER OF MEMBERS OF THE COMPANY EXCEEDS FIFTY

We certify that the excess of the number of members of the company over fifty consists wholly of persons who, under paragraph (*b*) of subsection (1) of section twenty-eight of the Companies Act, 1948, are not to be included in reckoning the number of fifty.

Signed.............................., Director.

Signed.............................., Secretary.

CERTIFIED COPIES OF ACCOUNTS

Except where the company is either an exempt private company as defined by section 129 (4) of the Companies Act, 1948, which sends with this return a certificate in the form set out below or an assurance company which has complied with the provisions of section 7 (4) of the Assurance Companies Act, 1909, there must be annexed to this return a written copy, certified both by a director and by the secretary of the company to be a true copy, of every balance sheet laid before the company in general meeting during the period to which this return relates (including every document required by law to be annexed to the balance sheet) and a copy (certified as aforesaid) of the report of the auditors on, and of the report of the directors accompanying, each such balance sheet. If any such balance sheet or document required by law to be annexed thereto is in a foreign language there must also be annexed to that balance sheet a translation in English of the balance sheet or document certified in the prescribed manner to be a correct translation. If any such balance sheet as aforesaid or document required by law to be annexed thereto did not comply with the requirements of the law as in force at the date of the audit with respect to the form of balance sheets or documents aforesaid, as the case may be, there must be made such additions to and corrections in the copy as would have been required to be made in the balance sheet or document in order to make it comply with the said requirements, and the fact that the copy has been so amended must be stated thereon.

ADDITIONAL CERTIFICATE TO BE GIVEN IN THE CASE OF AN EXEMPT PRIVATE COMPANY BY THE PERSONS SIGNING THE ABOVE-MENTIONED CERTIFICATES

We certify that, to the best of our knowledge and belief, the conditions mentioned in subsection (2) of section one hundred and twenty-nine of the Companies Act, 1948, are satisfied at the date of this return and have been satisfied at all times since.......................................†

Signed.............................., Director.

Signed.............................., Secretary.

* In the case of the first return, strike out the second alternative. In the case of a second or subsequent return, strike out the first alternative.

† Insert "1st July, 1948" (the date of the commencement of the Companies Act, 1948) or, if the company was registered after that date, the date on which it was registered, or, if the proviso to s. 129 (1) of the Companies Act, 1948, has effect in relation to the return, the time at which it was shown to the Board of Trade that the conditions mentioned in the certificate were satisfied.

14. What is a "scrip" certificate? What stamp does it require?

15. Explain the nature and use of the Register of Members and Share Ledger. What are the statutory requirements in connexion therewith?

16. What date should be entered in the Register of Members as date of entry?

17. State briefly some of the statutory provisions with respect to the Register of Members. Can a company keep a Dominion Register?

18. How are Share Ledgers indexed?

19. State briefly the various steps by which the Share Ledger is posted.

20. What does (*a*) a *debit* balance, (*b*) a *credit* balance in the Cash Account of any shareholders' accounts signify?

21. How can the balances in the Share Ledger be agreed with those in the financial books?

22. Explain the use of the "Balance" column in a Share Ledger Account.

23. Submit *pro froma* ruling of a Register of Members and Share Ledger, and enter therein six specimen entries; also *pro forma* ruling of a Register of Stockholders.

24. Explain the nature and use of a Register of Charges. Submit *pro forma* ruling.

25. Submit *pro forma* ruling of a Register of Debenture Holders, and enter therein six specimen items; also *pro forma* ruling of a Register of Debenture Stockholders.

26. Explain the nature and use of a Dividend Book. Submit *pro forma* ruling, and enter three specimen items therein.

27. Describe briefly the nature and use of the following: (*a*) Register of Directors and Secretaries, (*b*) Minute Book, (*c*) Share Warrant and Share Warrant Register, (*d*) Register of Probates.

28. Give some particulars regarding a Company's Annual Return.

EXERCISE XV (A)

1. On 20th January, the Eastwood Timber Co., Ltd., allotted 500 Ordinary Shares of £1 each, number 18,500 to 18,999, to Ernest Willington, 33 Rayleigh Street, E.C., and on the same day they sent him a letter of regret with reference to the further 500 shares for which he had applied.

E. Willington paid for the shares allotted to him as follows: 11th January, 5s. per share on application; 20th January, 5s. per share on allotment; and 10s. per share (final call) on 20th February.

On 28th February, E. Willington purchased a further 500 shares, Nos. 1 to 500, on the Stock Exchange, for which he paid 21s. per share. The transfer was lodged and approved on 6th March. These shares were purchased from R. Gee, 14 High Street, Burnham.

On 31st March, E. Willington sold 100 shares, Nos. 1 to 100, to Peter Robinson, 14 Dowgate Street, Southminster, at 25s. per share, the transfer being lodged on 1st April and approved on 3rd April.

Show the transactions as they would appear in the statistical books of the Eastwood Timber Co., Ltd. Ignore all questions of brokerage, stamps, and transfer fees. (*R.S.A.*)

2. Give suitable rulings for the Share Ledger of a limited Company and enter therein the following particulars—

John Smith, Cork Merchant, 440 Austin Friars, E.C., applied, on 2nd January, for 150 Ordinary Shares of £1 each, and forwarded the necessary 2s. 6d. per share with his application.

On 12th January, John Smith forwarded a further 2s. 6d. per share on being informed by the company that 150 Ordinary Shares (numbered 1 to 150) had been allotted to him.

On 10th March, a call of 5s. per share was notified by the Company, and was duly paid by John Smith on his holding on 15th March.

On 3rd April, John Smith sold 100 of his shares (numbered 1 to 100) to William Brown, Hatter, 486 Bond Street, W., at 12s. 6d. per share, the transfer being in due course accepted by the company. (*London Chamber of Commerce.*)

3. The Companies Act, 1948, enacts that every Public Limited Company shall make an "Annual Return." Give an example of such a "Return," inserting all the details necessary that the document prepared shows all the particulars required, as enumerated in Part I, Sixth Schedule, of the Act.

4. The undermentioned persons applied for shares in the X Y Z Manufacturing Co., Ltd. The shares offered for subscription were shares of £1 each, payable 5s. per share on application, 7s. 6d. on allotment, and the balance as and when required. The distinctive numbers of the shares allotted ran from No. 1 upwards. The list was closed on 1st February, and some of the allotments made were as under—

	Shares Applied for	Shares Allotted
Arthur Roberts, Wool Merchant, 10 Finsbury Street, Burnton	4,000	3,000
Henry P. Richards, Gentleman, The Grange, Lynford, Hants	3,000	2,000
Lucas Norton, Iron Manufacturer, 114 Princes Street, Sheffield	5,000	4,000
Ellen Allerton, Spinster, Park Grove, Finchley	200	nil
Norman Princeton, Stock Broker, 120 Lombard Street, London, E.C.3	5,000	4,000
George L. Lloyd, Lace Manufacturer, 178 High Road, Nottingham	500	500

All moneys due on allotment were received by 15th February. Write up the Application and Allotments Book for the above.

5. The Pneumatic Tyre Co., Ltd., on 1st March, allotted to Robert Essley, Merchant, of 115 Walkley Road, Thornheath, 500 Ordinary Shares of £1 each, number 721 to 1220 inclusive, upon an application dated 23rd February, Essley having on that day paid to the Company's Bankers a deposit of 2s. 6d. per share on 100 shares. The amount due on allotment was 5s. per share, which was duly paid on 10th March. On 1st May the company made a First Call of 5s. per share, which was duly paid on the 15th May. On 25th June, Essley purchased from Thomas King, Surveyor, of 14 The Lanes, Farnham, the last 100 of King's 500 shares (numbered 1 to 500 inclusive), upon which 12s. 6d. per share had been paid up; the transfer was registered on 1st July. On 31st August the company made a further call of 2s. 6d. per share, which was duly paid on 15th September. On 1st October, Essley sold to John Tinton (a new shareholder), Merchant, of 115 Lime Street, Halifax, 80 shares, numbered 801 to 880 inclusive, 15s. per share paid up, the transfer being registered on 12th October. On 15th October the company called up the remaining 5s. per share, which was duly paid on 25th October. On 25th November, Essley sold to Philip Brown (a new shareholder), Engineer, of 9 Lupus Street, Benfield, the remainder of his shares, the transfer being registered on 2nd December. Write up the above transactions in the Company's Share Ledger, showing the accounts of Essley, King, Tinton, and Brown.

6. Referring to the previous exercise, enter the transfers therein mentioned into the company's Transfer Register, assuming the numbers of the transfer deeds and of new certificates.

7. On 5th May, the directors of the Auto Brake Co., Ltd., made a first call

of 5s. per share on the Ordinary Shares. The call was payable by the 20th May, and the following amounts were received—

				£	s.	d.
May	9.	R. T. Lake	2,000 Shares	300	–	–
,,	11.	A. F. Brown	1 Share		5	–
,,	13.	F. Cassell	1 ,,		5	–
,,	14.	T. O. Neller	1 ,,		5	–
,,	15.	N. P. Locksley	1 ,,		5	–
,,	17.	E. Chalmers	1 ,,		5	–
,,	18.	F. T. Bullen	2,495 Shares	323	15	–
,,	20.	J. P. Silverlock	5,500 ,,	1,375	–	–

Lake and Bullen were allowed till 20th June to pay the balance, plus interest at 5 per cent, on which date the sums due (including interest thereon) were duly received. Write up the Call Book and the subsidiary Cash Book.

8. The Auto Brake Co., Ltd., having taken power in its Memorandum of Association to issue £10,000 debentures in bonds of £100 each, offered the same for public subscription on 1st March, payable 40 per cent on application and 60 per cent on allotment. Applications were received, and allotments made, as under—

			Applied for	Allotted
Mar.	2.	Robert E. Adams, Baker, 61 Carnaby Street, Birmingham	30	20
,,	4.	Alfred Brady, Surveyor, 17 Seaford Road, Liverpool	10	10
,,	4.	William S. Cooper, Butcher, 21 Regent Street, Leeds	6	nil
,,	4.	Charles T. Dawson, Architect, 44 Windsor Road, Manchester	10	5
,,	5.	Henry Ellis, Solicitor, 21 Crofton Street, Warwick	6	5
,,	5.	Philip O. Forster, Artist, 12 Penton Road, Nottingham	6	5
,,	6.	Edward Goodwin, Journalist, 75 Percy Street, Reading	10	10
,,	7.	Catherine E. Howard, Spinster, 25 Burnaby Gardens. Winchester	25	20
,,	7.	Walter Irving, Engineer, 112 Brockley Road, Southampton	10	5
,,	8.	Thomas D. Jeffries, Merchant, 29 Granville Street, London, W.	5	nil
,,	8.	Matthew Lockwood, Barrister, 108 Westbourne Grove, Windsor	5	5
,,	8.	Lionel F. Taylor, Gentleman, 76 Stewart Road, London, W.	20	15

Allotment was made on 10th March in order of application, the numbers of the debentures running from 1 upwards. No allotment was made to Cooper and Jeffries, whose deposits were duly returned with Letters of Regret, Nos. 5 and 6. The moneys payable on allotment were all received by 20th March. Write up the Debenture Applications and Allotments Book and subsidiary Cash Book.

9. The following transfers of debentures were made, approved, and duly registered in the books of the Auto Brake Co., Ltd.—

May 15th, 5 Debentures (1–5) from R. E. Adams to C. T. Dawson; No. of transfer deed, No. 101.

June 10th, 5 Debentures (56–60) from C. E. Howard to H. Ellis.
„ 15th, 5 Debentures (86–90) from L. F. Taylor to P. O. Foster.
„ 25th, 5 Debentures (61–65) from C. E. Howard to H. Ellis.
July 9th, 5 Debentures (6–10) from R. E. Adams to James Burnaby, Merchant, 112 Leman Street, Northampton.
Aug. 22nd, 5 Debentures (91–95) from L. F. Taylor to Rupert Armstrong, Engineer, 95 Bromley Road, Newcastle.

Write up the Debenture Transfer Register.

10. A Retail Trader has 4 shops (A, B, C, and D). His total figures for the year are Sales A £4,000, B £3,600, C £3,800, D £2,000. The Stock at the beginning of the year is £5,500, and at the end £5,300. The Purchases are £9,800. The Expenses not kept separately for each shop are Printing, Stationery, and Advertising £48, Trade Expenses £210.

The Rents and Rates are A £150, B £110, C £180, D £115, and the Wages are A £218, B £194, C £234, D £180. On the basis that each shop earns the same rate of gross profit, prepare a statement showing the net profit at each shop, dividing the expenses in proportion to the business done. (*West Riding of Yorkshire.*)

11. A friend desires you to advise him as to whether he should invest £1,000 (which he has free) in—

(*a*) Ordinary Shares of a Company which has paid 8 per cent per annum during the last three years; or

(*b*) In 6 per cent Cumulative Preference Shares of the same Company: or

(*c*) In 4 per cent Debentures of the same Company.

How would you advise him? (*U.L.C.I.*)

12. A sold goods to the value of £600 to B on 2nd January. On 2nd February B sent A a bill, dated that day, for £600 at 4 months. On 5th March, A discounted the bill with his bankers at 6 per cent per annum. On 28th May, B wrote to A and informed him that he was unable to meet the bill, and requested A to retire it, which A did. At the same time, B sent A a cheque for £200 (which was duly met), and a bill at 3 months dated 2nd June for £400 and interest at 5 per cent per annum. Make the entries in A's books, recording the above transactions, opening and posting in the Ledger the accounts which are affected. (*Chartered Accountants.*)

13. A firm of three partners, G, H, and J, who were interested in the profits or losses of their general business in the proportions of 40 per cent, 30 per cent, and 30 per cent respectively, entered, at the instance of H, into two outside ventures on the understanding that, if a profit resulted in either case, H's proportion thereof should exceed his usual proportion by 10 per cent, and if, on the other hand, a loss resulted from either transaction, H's proportion thereof should exceed his usual proportion by 15 per cent. Venture No. 1 yielded a profit of £1,000. Venture No. 2 resulted in a loss of £500. The ordinary business showed a profit of £2,000. Divide up the results in the manner agreed, and show their effect in a personal account with each partner. (*Chartered Accountants.*)

14. From the following extract from the books of Henry & Co. you are required to prepare the Sales Ledger and Purchases Ledger Adjustment Accounts for the year ended 31st March, 1949, and to bring down the balances.

	£	s.	d.
Sales Ledger balances at 31st March, 1948	20,196	2	5
Purchases Ledger balances at 31st March, 1948	12,375	18	6
Credit Purchases	101,150	7	9
Credit Sales	132,823	–	11
Cash received from Customers	90,987	19	4
Cash paid to Creditors	71,556	17	10

	£	s.	d.
Interest charged to Customers	71	5	–
Discount allowed	2,080	10	9
Discount received	1,226	1	3
Creditors' Accounts paid through Petty Cash	39	6	7
Bills Receivable received	22,800	–	–
Bills Receivable met	22,360	–	–
Returns Inwards	4,875	16	6
Returns Outwards	5,203	12	7
Bad Debts	2,209	13	2
Bills Receivable dishonoured	150	–	–
Bills Payable met	23,720	–	–
Bills Payable accepted	23,850	–	–
Cash paid to Customers	47	8	6
Transfer from Sales to Purchases Ledger	78	8	11

On 31st March, 1948, there were credit balances in the Sales Ledger amounting to £50 9s. 6d. *(R.S.A.)*

15. On 1st January A and B entered into partnership, but without any formal deed of partnership. A provided £10,000 as capital, and B provided £500. On 1st July A advanced £2,000 on loan to the firm.

Accounts were prepared and disclosed a profit of £3,000 for the year to 31st December, but the partners could not agree as to how this sum should be divided between them. A contended that the partners should receive 5 per cent interest on capital and that he should receive 6 per cent interest on his loan to the firm, and the balance then available should be divided equally. B contended that, as he did most of the work, he should be paid a salary before any division of profit was made.

You are required to show how the profits of the firm should be divided and to state what different division, if any, would be made if A had written a letter to B agreeing that a partnership salary of £500 should be paid to him. *(R.S.A.)*

16. A and B were partners sharing profits and losses in the proportions of three-fifths and two-fifths. They agreed to admit C as a partner as from 1st January, with two-fifths share of the profits—A and B to share in the same relative proportions as before.

It was agreed that on C's entry a revaluation of the assets should be made. This revaluation was made which resulted in an increase in value of Land and Buildings of £1,200, and reductions in value of the following assets—

	£
Plant and Machinery by	320
Stock by	780
Patents by	300

It was also agreed that a provision for bad debts be created equivalent to 5 per cent of Sundry Debtors of £7,800.

On C's entry a Goodwill Account was to be raised in the books of the firm of £8,000, which was to be credited to the three partners in their profit-sharing proportions.

C paid in £5,000 as his capital in the business and, in addition, the sum credited to him in respect of Goodwill. This latter amount to be credited to A and B as to three-quarters to A and one-quarter to B.

Prepare the Journal entries necessary to give effect to the above *(R.S.A.)*

17. Explain the difference between a Receipts and Payments Account and an Income and Expenditure Account.

On 30th April, 1948, the assets and liabilities of the Society for the Encouragement of Good Book-keeping were as follows—

	£
Cash at Bank and in hand	212
Office Furniture	350
4 per cent Consols, £600 at cost	636
Stock of Literature	47
Subscriptions for 1948–49 received in advance	42
Rent outstanding, 1 month	20

The following is a summary of the cash transactions during the year—

	£		£
In hand, 30th April, 1948	212	Rent of Office	240
Subscriptions and Donations	741	Office Salaries	650
Subscriptions, 1949–50, in advance	28	Office Expenses	73
Interest on Consols	24	Cost of £300 Local Loans 3 per cent Stock	255
Literature Sales	715	Lecturer's Fees and Hire of Halls	136
Proceeds of £200 Consols (sold April)	205	New Office Furniture	40
Receipts from Lecture Tickets	109	Literature Purchases	418
		In hand, 30th April, 1949	222
	£2,034		£2,034

On 30th April, 1949, £20 was outstanding for rent accrued, and the stock of literature on hand was valued at £56. £25 is to be written off the furniture as depreciation.

Prepare Accounts for the Society in the form you think would be most suitable for distribution to subscribers. *(R.S.A.)*

CHAPTER XV (*contd.*)

COMPANIES

SECTION (B)

RAISING OF CAPITAL

ISSUE OF SHARES AND DEBENTURES

How Shares and Debentures may be Issued. Shares and debentures ~~may be~~ issued in different ways both as regards terms of payment and also as regards price.

1. **As regards Price.** Shares and debentures may be issued *at par*, that is, at a price *equal* to their nominal value, as, for instance, a £1 share for £1, or a £50 debenture bond for £50. They may likewise be issued **at a premium,** that is, at a price *above* their nominal or face value, as, for instance, a £1 share for £1 2s. 6d., or a £100 debenture bond for £105. They may also be issued **at a discount,** that is, at a price *below* their nominal value. Shares may only be issued at a discount if of a class already issued and if the issue otherwise complies with Section 57 of the Companies Act, 1948, which stipulates—

(*a*) The issue of the shares at a discount must be authorized by resolution passed in general meeting of the company, and must be sanctioned by the Court.

(*b*) The resolution must specify the maximum rate of discount at which the shares are to be issued.

(*c*) Not less than one year must at the date of the issue have elapsed since the date on which the company was entitled to commence business.

(*d*) The shares to be issued at a discount must be issued within one month after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

[Also, every prospectus relating to the issue of shares and every Balance Sheet must contain particulars of the discount allowed on the shares, or of so much of that discount as has not been written off at the date of the issue of the document in question.]

2. **As regards Terms of Payment.** Shares and debentures may be issued payable in full on application. They may also be issued payable by instalments as and when the money is required by the company.

I. SHARES AND DEBENTURES PAYABLE IN FULL

(*a*) Shares and Debentures at par

When shares and debentures are issued payable in full on application, a separate account must be opened for each class of shareholders or debenture holders, and also for each kind of share capital

or debentures. The people who take the ordinary shares will be called Ordinary Shareholders, and the money they pay for these shares will be called Ordinary Share Capital, and so with other kinds of shares.

Example. A limited company issued at par 30,000 Ordinary Shares of £1 each, and £10,000 $4\frac{1}{2}$ per cent Debentures in bonds of £50 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, extract Trial Balance, and draw up the company's Balance Sheet.

JOURNAL

		Dr.	*Cr.*
		£	£
	Ordinary Shareholders	30,000	
	To Ordinary Share Capital . . .		30,000
	30,000 Shares of £1 each.		
	Debenture Holders	10,000	
	To Debentures		10,000
	200 bonds of £50 each.		

Dr. CASH BOOK

Receipts	Bank
	£
To Ordinary Shareholders	30,000
,, Debenture Holders	10,000

LEDGER

Dr. ORDINARY SHAREHOLDERS *Cr.*

	To Ord. Share Capital . .	£ 30,000		By Cash . . .	£ 30,000

Dr. ORDINARY SHARE CAPITAL *Cr.*

				By Ord. Share-holders . .	£ 30,000

Dr. DEBENTURE HOLDERS *Cr.*

	To Debentures . .	£ 10,000		By Cash . . .	£ 10,000

Dr.		DEBENTURES	Cr.
		By Debenture Holders . .	£ 10,000

TRIAL BALANCE

	Dr.	Cr.
	£	£
Ordinary Share Capital		30,000
Debentures		10,000
Cash at Bank	40,000	
	£40,000	£40,000

BALANCE SHEET

	£		£
Ordinary Share Capital— 30,000 Shares of £1 each .	30,000	Cash at Bank . . .	40,000
Debentures— 200 Bonds of £50 each .	10,000		
	£40,000		£40,000

Narration. At the foot of each Journal entry the student will notice an explanatory remark; this is called a **narration.** Narrations should always be inserted in Journal entries. Not only do they assist the student to arrive at the correct figures to extend into the money columns, but they greatly facilitate the subsequent checking or auditing of the work.

Treatment of Details. The details as to the individual shareholders, the particular shares held, and the respective amounts paid on them, are omitted in the Journal, Cash Book, and General Ledger; they are not, however, ignored altogether, but are entered into the various statistical books explained in the previous section.

(*b*) Shares and Debentures at a Premium

A separate account must be opened in the Ledger for the premium. A premium on the issue of *shares* must be treated in accordance with Section 56, Companies Act, 1948—i.e. as a capital reserve which can be used only for certain specified purposes such as to pay up bonus shares or to write off preliminary expenses or commission on shares.

Example. A limited company issued 20,000 Preference Shares of £1 each at 22s. 6d. per share, and £10,000 $4\frac{1}{2}$ per cent Debentures, in bonds of £50 each, at a premium of 5 per cent; which

were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the company's Balance Sheet.

JOURNAL

		Dr.	Cr.
		£	£
	Preference Shareholders	22,500	
	To Preference Share Capital . . .		20,000
	20,000 Shares of £1 each.		
	To Share Premium A/c		2,500
	2s. 6d. per share on 20,000 shares.		
	Debenture Holders	10,500	
	To Debentures		10,000
	200 bonds of £50 each.		
	To Debenture Premium		500
	5% on £10,000.		

Dr. CASH BOOK

Receipts	Bank
	£
To Preference Shareholders	22,500
,, Debenture Holders	10,500

BALANCE SHEET

	£		£
Preference Share Capital—		Cash at Bank . . .	33,000
20,000 Shares of £1 each .	20,000		
Share Premium A/c . .	2,500		
Debenture Premium A/c .	500		
4½% Debentures—			
200 Bonds of £50 each .	10,000		
	£33,000		£33,000

(c) Shares and Debentures at a Discount

The discount must be separated from the amount payable on the shares and debentures; it must be posted to a separate account in the Ledger, as it forms no part of the shares and debentures, but is merely a loss sustained by the company in issuing the shares and debentures.

Example. A limited company, having complied with the regulations as contained in the Companies Act, 1948 (Section 57), issued 10,000 Shares of £1 each at a discount of 5 per cent; which were all subscribed and fully paid. Make the necessary Journal, Cash Book, and Ledger records; also show the company's Balance Sheet.

JOURNAL

		Dr.	*Cr.*
		£	£
	Sundry Shareholders	9,500	
	Share Discount A/c	500	
	To Share Capital A/c		10,000
	Issue of 10,000 shares of £1 each at a discount of 5%.		
		£10,000	£10,000

CASH BOOK

(Debit Side)

	Bank
	£
To Sundry Shareholders	9,500

LEDGER

Dr. SHARE CAPITAL ACCOUNT *Cr.*

					£
				By Balance b/d .	10,000
				,, Sundry Shareholders . .	9,500
				,, Share Discount A/c	500

Dr. SUNDRY SHAREHOLDERS *Cr.*

		£			£
	To Share Capital A/c	9,500			

Dr. SHARE DISCOUNT ACCOUNT Cr.

To Share Capital A/c	£ 500			£

BALANCE SHEET

	£	£		£
Nominal Capital— 20,000 Shares at £1 each . .	20,000		Sundry Assets . . .	10,000
			Cash at Bank . . .	9,500
			Share Discount A/c . .	500
Issued Capital— 20,000 Shares of £1 each . .		20,000		
		£20,000		£20,000

Example. A limited company issued £10,000 4½ per cent Debentures, in bonds of £50 each, at £45 per bond; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the company's Balance Sheet.

JOURNAL

		Dr.	Cr.
		£	£
	Debenture Holders	9,000	
	Debenture Discount	1,000	
	To Debentures		10,000
	Issue of 200 Bonds of £50 each at a discount of £5 per bond.		

Dr. CASH BOOK

Receipts	Bank
	£
To Debenture Holders	9,000

BALANCE SHEET

	£		£
4½% Debentures— 200 Bonds of £50 each . .	10,000	Cash at Bank . . .	9,000
		Debenture Discount . .	1,000
	£10,000		£10,000

II. SHARES AND DEBENTURES PAYABLE BY INSTALMENTS

Shares and debentures are most frequently issued payable by instalments at certain intervals. In such cases a separate account is opened for the amount due on Application and Allotment and for each Call.

(a) Shares at par

Example. A limited company issued 50,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. on allotment, and 5s. on each of two subsequent calls; which were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and draw up Trial Balance and Balance Sheet.

JOURNAL

		Dr.	*Cr.*
		£	£
	Application and Allotment A/c (Ord. Shares) .	25,000	
	To Ordinary Share Capital . . .		25,000
	Allotment of 50,000 Ordinary shares, payable 2s. 6d. on application and 7s. 6d. on allotment.		
	First Call A/c (Ord. Shares)	12,500	
	To Ordinary Share Capital . . .		12,500
	5s. per share on 50,000 shares.		
	Second Call A/c (Ord. Shares) . . .	12,500	
	To Ordinary Share Capital . . .		12,500
	5s. per share on 50,000 shares.		

Dr. CASH BOOK

Receipts	Bank
	£
To Application and Allotment A/c (Ordinary Shares) (Application Money)	6,250
„ Application and Allotment A/c (Ordinary Shares) (Amount due on Allotment)	18,750
„ First Call A/c (Ordinary Shares)	12,500
„ Second Call A/c „ „	12,500

LEDGER

Dr. APPLICATION AND ALLOTMENT ACCOUNT (ORDINARY SHARES) *Cr.*

		£			£
	To Ord. Share Capital . .	25,000		By Cash (Application	6,250
				„ „ (Allotment) .	18,750
		£25,000			£25,000

Dr. FIRST CALL ACCOUNT (ORDINARY SHARES) Cr.

	To Ord. Share Capital .	£ 12,500		By Cash . . .	£ 12,500

Dr. SECOND CALL ACCOUNT (ORDINARY SHARES) Cr.

	To Ord. Share Capital .	£ 12,500		By Cash . . .	£ 12,500

Dr. ORDINARY SHARE CAPITAL Cr.

					£
				By Application and Allotment A/c .	25,000
				„ First Call A/c .	12,500
				„ Second Call A/c .	12,500

BALANCE SHEET

	£		£
Ordinary Share Capital— 50,000 Shares of £1 each .	50,000	Cash at Bank . . .	50,000
	£50,000		£50,000

(*b*) Shares at a Premium

Example. A limited company issued 50,000 Preference Shares of £1 each at a premium of 2s. 6d. per share, payable 5s. per share on application, 7s. 6d. on allotment (including the premium), and 5s. per share on each of two later calls. The shares were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

		Dr.	Cr.
		£	£
	Application and Allotment A/c (Pref. Shares) .	31,250	
	To Preference Share Capital . . .		25,000
	„ Share Premium A/c		6,250
	Issue of 50,000 Pref. Shares of £1 each, payable 5s. on application and 7s. 6d. (including premium of 2s. 6d.) on allotment.		
	First Call A/c (Pref. Shares)	12,500	
	To Preference Share Capital . . .		12,500
	5s. per share on 50,000 shares.		
	Second Call A/c (Pref. Shares) . . .	12,500	
	To Preference Share Capital . . .		12,500
	5s. per share on 50,000 shares.		

Dr. CASH BOOK

Receipts	Bank
	£
To Application and Allotment A/c (Preference Shares)	12,500
„ Application and Allotment A/c (including sum on account of premium)	18,750
„ First Call A/c (Preference Shares)	12,500
„ Second Call A/c „ „	12,500

(*c*) **Debentures at par**

Example. A limited company issued £100,000 4½ per cent Mortgage Debentures at par, payable 25 per cent on application, 25 per cent on allotment, and the balance three months later. All the money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

		Dr.	Cr.
		£	£
	Application and Allotment A/c (Debentures)	50,000	
	To 4½% Debentures A/c.		50,000
	Issue of £100,000 Debentures, payable 25% on application and 25% on allotment.		
	Call A/c (Debentures)	50,000	
	To 4½% Debentures		50,000
	50% of £100,000.		

Dr. CASH BOOK

Receipts	Bank
	£
To Application and Allotment A/c (Debentures)	25,000
„ Application and Allotment A/c „	25,000
„ Call A/c (Debentures)	50,000

(*d*) **Debentures at a Premium**

Example. A limited company issued £100,000 Debentures in bonds of £100 each at a premium of £5 per bond, payable £30 per bond on application (including the premium), and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

		Dr.	*Cr.*
		£	£
	Application and Allotment A/c (Debentures) .	105,000	
	To Debentures A/c		100,000
	,, Debenture Premium A/c . . .		5,000
	£30 per bond (including £5 premium) on application and £75 per bond on allotment of 1,000 bonds of £100 each.		

Dr. CASH BOOK

Receipts	Bank
	£
To Application and Allotment A/c (Debentures) . . .	30,000
,, ,, ,, ,, ...	75,000

(*e*) Shares and Debentures at a Discount

Example 1. A limited company, having taken the necessary steps to be empowered to issue shares at a discount, issued 10,000 shares of £1 each at a discount of 5 per cent. The shares were payable as to 20 per cent on application and the balance on allotment.

Make the necessary Journal, Cash Book, and Ledger records; also a Balance Sheet.

JOURNAL

		Dr.	*Cr.*
		£	£
	Application and Allotment A/c . . .	9,500	
	Share Discount A/c	500	
	To Share Capital A/c . . .		10,000
	Allotment of 10,000 Shares of £1 each at a discount of 5%		
		£10,000	£10,000

CASH BOOK
(Debit Side)

	Bank
	£
To Application and Allotment A/c (Shares) . . .	2,000
,, ,, ,, ,, . . .	7,500
	£9,500

LEDGER

Dr. **Share Capital Account** Cr.

				£
			By Balance b/d.	10,000
			" Share Discount	500
			" Application and Allotment	9,500

Dr. **Application and Allotment Account (Shares)** Cr.

		£		
	To Share Capital	9,500		

Dr. **Share Discount Account** Cr.

		£		
	To Share Capital	500		

Balance Sheet

	£	£		£
Nominal Capital— 20,000 Shares of £1 each	20,000		Sundry Assets	10,000
			Cash at Bank	9,500
			Share Discount A/c	500
Issued Capital— 20,000 Shares of £1 each, fully called		20,000		
		£20,000		£20,000

Example 2. A limited company issued 1,000 4½ per cent Debenture Bonds of £100 each at a discount of 5 per cent, payable 25 per cent on application, and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL

		Dr.	Cr.
		£	£
	Application and Allotment A/c (Debentures)	95,000	
	Debenture Discount A/c	5,000	
	To 4½% Debentures		100,000
	Issue of 1,000 4½% Debentures of £100 each at a discount of 5%.		

Dr. CASH BOOK

Receipts	Bank
	£
To Application and Allotment A/c (Debentures) (payable on application)	25,000
,, Application and Allotment A/c (Debentures) (payable on allotment)	70,000

Note re Premiums and Discounts. The premiums and discounts are shown only in the Journal, and are never mentioned in the Cash Book. As far as the Cash Book is concerned, the receipts in the case of a premium will be *more*, and in the case of a discount *less*, than the nominal value of the shares or debentures. If the premium were shown separately in both the Cash Book and the Journal, we should have the Premium Account credited from the Journal and credited again from the Cash Book, and the result would be to double the premium.

SHARES OVER-SUBSCRIBED

Method of Procedure. It frequently happens that more shares are applied for than there are shares to allot, and in such cases the shares are said to be "*over-subscribed.*" Those applicants to whom no allotment is made, have their money refunded in full. But those subscribers who are allotted a smaller number of shares than they have applied for, do not have all the money returned to them; the amount they have over-paid on application is carried forward to the credit of the amount due from them on allotment.

Example. A limited company offered for subscription 50,000 shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 60,000 shares. The deposits on 5,000 shares were returned to those applicants to whom no shares were allotted. The deposits on the other 5,000 shares were carried forward against the amounts due on allotment, these subscribers having paid for more shares than were allotted to them. The moneys payable on allotment were duly received. Make the necessary entries in the company's books to record the above transactions.

JOURNAL

		Dr.	*Cr.*
		£	£
	Application and Allotment A/c	18,750	
	To Share Capital A/c		18,750
	Allotment of 50,000 shares, payable 2s. 6d. on application and 5s. on allotment.		

CASH BOOK

Dr. Receipts	Bank	Payments	Cr. Bank
	£		£
To Application and Allotment A/c	7,500	By Application and Allotment A/c (deposits returned to non-allottees, 2s. 6d. per share on 5,000 shares)	625
" Application and Allotment A/c	11,875	" Balance c/d	18,750
	£19,375		£19,375
To Balance b/d	18,750		

LEDGER

Application and Allotment Account

Dr.		£		Cr.	£
	To Share Capital	18,750		By Cash on Application	7,500
	" Cash (returned)	625		" Cash on Allotment	11,875
		£19,375			£19,375

Share Capital Account

Dr.				Cr.	£
				By Application and Allotment A/c	18,750

NOTE. The foregoing Journal entry is made, it should be noted, for the number of shares actually *allotted*, and not for the number of shares applied for. In the Cash Book, however, the exact amount of money received on application must, of course, be recorded, and when the Cash is posted to the Ledger the Application and Allotment Account is over-credited. The cash returned to non-allottees is therefore posted to the debit of that account, thus closing it.

CALLS IN ADVANCE AND IN ARREAR

Calls in Arrear. Shareholders sometimes fail to pay the sums due from them on the shares they hold. In such cases, the Allotment and Call Accounts (or Sundry Shareholders' Account if this method of entry has been adopted) will show as debit balances the amounts owing. The total of these amounts will constitute the calls in arrear. There may, however, be a separate Calls in Arrear Account in the Ledger, as the various sums due by defaulting shareholders may have been transferred to one special account; but this procedure is not usual. The Articles of Association generally give the directors power to charge interest on calls in arrear. (Clause 18 of Table A—see page 585—names 5 per cent per annum as the interest payable.)

Calls in Advance. Some shareholders, who do not wish to be troubled by repeated calls, pay their shares in full before the proper time. In such cases, the money received by the company in excess of what has been called up must be put to a separate "Calls in Advance" Account. No dividend will be payable on this money, for it does not as yet form part of the company's capital. Most Articles of Association, however, give the directors power to pay interest on such calls received in advance. When the company does call up such money, a transfer must be made debiting the Calls in Advance Account and crediting Share Capital Account.

How Calls are Shown on the Balance Sheet. Although the Calls in Arrear and Calls in Advance are separate accounts in the Ledger, yet the Calls in Arrear are not shown as a separate item on the assets side of the Balance Sheet, nor the Calls in Advance as a separate item on the liabilities side; the Calls in Advance being added, and the Calls in Arrear deducted from capital account. Some accountants, however, show the Calls in Advance separately.

Nominal Capital Shown on Balance Sheet. When a limited company's shares are payable by instalments, the books at any date will record only such part of the capital as has been actually called up at this date. On the Balance Sheet, however, it is usual to show both the nominal and the issued capital, together with the amount called up on the shares so issued.

Example. A limited company with an authorized capital of £100,000, in shares of £1 each, issued 50,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. on allotment, 5s. three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 100 shares: and another shareholder, who held 75 shares, paid them in full. Make the necessary entries in the company's books to record the above transactions, and show the Capital on the company's Balance Sheet.

JOURNAL

	Dr.	Cr.
	£	£
Application and Allotment A/c	12,500	
To Share Capital A/c		12,500
Allotment of 50,000 shares, payable 2s. 6d. per share on application and 2s. 6d. on allotment.		
First Call A/c	12,500	
To Share Capital A/c		12,500
5s. per share on 50,000 shares.		

Dr. CASH BOOK

Receipts	Bank £	s.	d.
To Application and Allotment A/c	6,250	-	-
„ Application and Allotment A/c	6,250	-	-
„ First Call A/c (£12,500 – £25)	12,475	-	-
„ Calls in Advance A/c (10s. per share on 75 shares) . .	37	10	-

BALANCE SHEET

	£	s.	d.	£	s.	d.
Authorized Capital—						
100,000 Shares of £1 each	100,000	-	-			
Issued Capital—						
50,000 Shares of £1 each, 10s. per share called up	25,000	-	-			
Add Calls Paid in Advance	37	10	-			
	25,037	10	-			
Less Calls in Arrear	25	-	-			
				25,012	10	-

FORFEITURE OF SHARES

What Forfeiture Means. It has been shown that if a shareholder fails to pay the sums due from him when the directors make a call, such sums are treated as calls in arrear. Should the shareholder not pay the money within a further stipulated time, the directors generally have power conferred on them by the Articles of Association to cancel such shares, after due notice has been given to the shareholder, and to appropriate to the company's own use any money already paid up on them. These shares are then said to be forfeited, and the shareholder ceases to be a member of the company. The Articles must be strictly complied with,

otherwise the forfeiture may not be valid; and particulars of all forfeited shares must be given in the Annual Return.

Provisions of Table A. As regards forfeiture of shares the following provisions of Table A, which are typical of most Articles of Association, should be carefully noted—

33. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.

34. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of service of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.

35. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

36. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

37. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the company all moneys which, at the date of forfeiture, were payable by him to the company in respect of the shares, but his liability shall cease if and when the company shall have received payment in full of all such moneys in respect of the shares.

39. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum, which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share, or by way of premium, as if the same has been payable by virtue of a call duly made and notified.

Note re 34 Above. Students must not be of the opinion that—at the expiration of fourteen days—the secretary of the company must proceed to send a notice *re* Calls in Arrear with a view to their forfeiture. There may be considerable delay, and careful inquiry is prosecuted before the notice (hinting forfeiture) is sent.

Circumstances occasioning delay in payment of calls are often extenuating, and the secretary of a company is diffident of taking steps to enforce the payment of arrears.

Liability of Ex-shareholder. The ex-shareholder is, strictly speaking, still liable, even after forfeiture, for the sum owing on the shares. But the amount is, for all practical purposes, a bad debt, and is usually written off. Moreover, a shareholder of substance cannot simply abstain from paying calls and expect his shares to be forfeited. It is the duty of the directors to compel payment if it can be obtained. The ex-shareholder's liability ceases, however, so soon as the company receives payment in full for the particular shares forfeited.

Entries Required when Shares are Forfeited. The full amount called up on the shares has, of course, been credited to

Capital Account in the expectation of receiving the money; these sums must now be debited back to the Share Capital Account in order to cancel them. The amount actually paid on the forfeited shares, i.e. on Application, or on Application and Allotment, must be transferred to a "Forfeited Shares Account," or to a "Cash Paid on Forfeited Shares Account." Again, the amounts owing on the shares have been debited to the Allotment Account and to the Call Account when the money was called up; these amounts must now be credited back to the Allotment Account, or Call Account as the case may be, in order to cancel them.

An alternative method is to debit the Share Capital Account with the full amount called up on the forfeited shares, and to credit the same amount to a Forfeited Shares Account. The Forfeited Shares Account is then debited with the amounts owing on the shares, and these amounts are credited back to the Allotment Account, or Call Account, as the case may be. This method is not recommended.

Example. A limited company has an Issued Capital of £60,000 in shares of £1 each, 15s. per share called up. The directors resolve that 160 shares, on which the first and second calls of 5s. per share each had not been paid, should be forfeited. Make the necessary Journal entries and show the effect on the company's Balance Sheet.

First Method—

JOURNAL

		Dr.	Cr.
		£	£
	Share Capital A/c (*full amount called up*) . .	120	
	To Forfeited Shares A/c (*amount paid*)		40
	,, First Call A/c (*amount due*) . . .		40
	,, Second Call A/c (*amount due*) . .		40
	160 Shares Nos.............to...........forfeited by order of the Board for non-payment of calls. Resolution No...............dated......................		

Alternative Method—

JOURNAL

		Dr.	Cr.
		£	£
	Share Capital A/c	120	
	To Forfeited Shares A/c		120
	160 Shares of £1 each, 15s. called up, forfeited, as per Resolution dated............................		
	Forfeited Shares A/c	80	
	To First Call A/c		40
	,, Second Call A/c		40
	Amount of unpaid calls written back.		

Both Methods—

BALANCE SHEET

	£	£
Issued Capital—		
60,000 Shs. of £1 ea., 15s. called up . . .	45,000	
Less 160 „ „ forfeited	120	
59,840		44,880
Forfeited Shares A/c		40

In the Share Ledger a note would be made *in red ink*, in the shareholder's account, stating that the shares were forfeited, and giving the date of the directors' resolution.

What is Done with the Cash Received on Forfeited Shares. The money received on forfeited shares is, as we have seen, placed to the credit of a Forfeited Shares Account. This money is, of course, a profit to the company, but it is a *capital* profit, and must not be taken to Profit and Loss Account. If it is proposed to re-issue the shares, the amount is left in the Forfeited Shares Account, to be dealt with whenever such re-issue takes place. After re-issue any balance remaining in the account represents a premium on the shares and must be transferred to the Share Premium Account in accordance with Section 56 of the Companies Act, 1948.

RE-ISSUE OF FORFEITED SHARES

Power to Re-issue. As the forfeiture of shares is not a reduction of capital within the meaning of the Companies Act, the Articles of Association of a company usually give the directors power to re-issue forfeited shares. Such shares may be issued at par, at a premium, or even at a reduced price. The reduction, however, should not exceed the amount already paid up on the shares, as otherwise this would be tantamount to the issue of shares at a discount, which is only legal under special conditions as stated on page 567.

Entries on Re-issue. On re-issue, a Journal entry is made, debiting the person to whom the shares have been re-allotted with the amount he has agreed to pay for them, debiting Forfeited Shares Account with the reduction in price (if any), and crediting Share Capital Account with the called-up value of the shares. Any balance remaining on Forfeited Shares Account after all shares have been re-issued is transferred to Share Premium Account.

Example. The directors of the aforesaid company resolved

that the previously mentioned shares, namely 160 shares of £1 each, 15s. per share called up, 5s. per share paid up, should be issued to John Smith, credited with 15s. per share paid, for £100. Make the necessary entries in the company's books.

JOURNAL

	Dr.	Cr.
	£	£
John Smith (*personal account in General Ledger*) .	100	
Forfeited Shares A/c	20	
To Share Capital A/c		120
Re-issue of 160 Shares of £1 each, credited with 15s. per Share paid, for £100, as per Resolution No.................. dated..........................		
Forfeited Shares A/c	20	
To Share Premium A/c		20
Premium on re-issue of forfeited shares.		

Dr. CASH BOOK

Receipts	Bank
	£
To John Smith	100

Note. As £120 of Capital ($\frac{3}{4}$ of £160) is being issued for £100, the balance of £20 must be made good out of the Forfeited Shares Account.

INTEREST ON CALLS

Interest on Calls in Arrear. The Articles of Association usually empower the directors to charge interest on calls not paid within the specified time.

Provisions of Table A. Clause 18 of Table A, Companies Act, 1948, reads as follows—

If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum from the day appointed for payment thereof to the time of actual payment at such rate not exceeding 5 per cent per annum as the directors may determine, but the directors shall be at liberty to waive payment of that interest wholly or in part.

The same or similar provisions are usually contained in special Articles.

Entries in the Books. Where the Share Ledger does not contain any columns for interest, accounts will have to be opened in the General Ledger for the shareholders concerned. The following Journal entry will be necessary—

Shareholder	*Dr.*
To Interest Receivable	*Cr.*

The Interest Receivable will be taken as a profit to Profit and Loss Account, and the shareholders will appear as Debtors on the Balance Sheet. Where the Share Ledger Account is in two parts, a Cash Account and a Share Account, the interest will be shown in the Share Ledger itself, being debited to the shareholders concerned from the Interest column in the Call Book. In the General Ledger the interest will be treated impersonally, i.e. the shareholders' names will not appear. The following Journal entry will be required—

Outstanding Interest	*Dr.*
To Interest Receivable	*Cr.*

The Interest Receivable will be treated as a profit in the Profit and Loss Account, and the Outstanding Interest will appear as an asset in the Balance Sheet.

Interest on Calls paid in Advance. The Articles of Association usually give the directors of a company power to allow interest on calls paid in advance.

Provisions of Table A. Clause 21 of Table A, Companies Act, 1948, reads as follows—

> The directors may, if they think fit, receive from any member willing to advance the same, all or any part of the moneys uncalled and unpaid upon any shares held by him; and upon all or any of the moneys so advanced may (until the same would, but for such advance, become payable) pay interest at such rate not exceeding (unless the company in general meeting shall otherwise direct) five per cent per annum, as may be agreed upon between the directors and the member paying such sum in advance.

The same or similar provisions are usually contained in special Articles.

Entries in the Books. Where the Share Ledger is not provided with columns for interest, accounts will be opened in the General Ledger for the shareholders concerned. The following Journal entry will be required—

Interest Payable	*Dr.*
To Shareholder	*Cr.*

The Interest Payable will be a loss in the Profit and Loss Account, and the shareholders will appear as Creditors on the Balance Sheet. Where the Share Ledger Account is in two parts, a Cash Account and a Share Account, the interest will be shown in the Share Ledger

itself, being credited to the shareholders from the Interest column in the Call Book. In the General Ledger the interest will be treated impersonally, the following Journal entry being made—

Interest Payable . . . . *Dr.*
  To Outstanding Interest . . . . . *Cr.*

The Interest Payable will be transferred to Profit and Loss as a loss, and the Outstanding Interest will be a liability on the Balance Sheet. In many cases, however, interest will be paid on the due date, and only the following Cash Book entry (payments side) will be required—

By Interest on Calls in Advance

This amount will be debited to an account of the same name in the General Ledger, and, at balancing time, will be transferred like other losses to Profit and Loss Account.

DEBENTURE INTEREST

Definition. Debenture Interest is the interest payable each year on the money borrowed by the company on debenture bonds. It is usually paid half-yearly, and is subject to deduction of income tax at the current standard rate. It is very important to remember that, except in the case of Income Debentures, the payment of interest is not dependent upon there being any profits. For this reason Debenture Interest is chargeable to Profit and Loss Account and not to Appropriation Account.

Entries for Debenture Interest. The interest is debited to a separate Debenture Interest Account. Entries are made as follows—

JOURNAL

		Dr.	*Cr.*
		£	£
	Debenture Interest	800	
	To Debenture Holders . . .		420
	,, Income Tax A/c		380
	Half-year's Debenture Interest, less tax at 9s. 6d. in the £.		

CASH BOOK *Cr.*

Payments	Bank
	£
By Debenture Holders	420

Sometimes, however, a Journal entry is not made. A cheque is drawn for the net amount of interest payable, and is entered as follows—

CASH BOOK *Cr.*

Payments	Bank
	£
By Debenture Interest *less tax*	420

The Debenture Interest Account is closed, at balancing time, by transfer to Profit and Loss.

Deduction of Income Tax. A limited company is empowered by law to deduct income tax at the current rate from all interest paid to debenture holders. The amount of the tax is not remitted direct to the Revenue Authorities, but is placed to the credit of the company's Income Tax Account. Later on, before calculating the profits on which the company pays tax, the amount of the debenture interest will be added to the profits shown in the company's accounts, and thus the Inland Revenue Authorities will recover the tax deducted by the company from its debenture holders.

Debenture Interest Charged in the Appropriation Account. Some limited companies charge the debenture interest in the Appropriation Account. From an accountant's point of view this is certainly not correct. Such interest is undoubtedly a charge against the profits, and not an appropriation.

How the Debenture Interest is Paid. In large companies, a cheque is drawn for the net amount of the interest payable, and posted to the debit of the Debenture Holders Account, thus closing it. The cheque itself is paid in to the credit of a separate Debenture Interest Account at the company's bank, and a separate Debenture Interest Pass Book is kept. Cheques or warrants are then drawn on this account for each debenture holder's portion, and sent to the debenture holders concerned. When the debenture holders clear their cheques, the amount will be debited by the bank to this particular Debenture Interest Account, and eventually this account will be closed. When the number of debenture holders is not very large a separate Debenture Interest Bank Account may not be opened; the debenture interest cheques or warrants may be drawn on the ordinary Bank Account.

Unclaimed or Unpaid Debenture Interest. If at balancing time all the debenture holders have not cleared their interest cheques there will be an unpaid balance of debenture interest. The double

entry books themselves will be quite clear. The Debenture Interest Account will have been debited "*To Debenture Holders*" and "*To Income Tax Account*," and credited "*By Profit and Loss*"; or, alternatively, it will have been debited "*To Cash*," and credited "*By Profit and Loss*"; in either case the Debenture Interest Account will be closed. To avoid making a one-sided entry, the balance of the Debenture Interest Bank Account must, consequently, be shown on both sides of the Balance Sheet; on the liabilities side as "*Unclaimed (or Unpaid) Debenture Interest*," and on the assets side as "*Cash at Bank on Debenture Interest Account.*" Very often, however (especially in exercises and examination papers), there is no separate statement of cash; the money with which to pay this debenture interest is included in "the Cash at Bank."

Debenture Interest less Tax. In exercises and examination papers the student will, sometimes, find in the Trial Balance an item like the following—

Debenture Interest *less tax* at 9s. 6d. . . £420

In the Profit and Loss Account the Debenture Interest must be raised to its proper sum, as the full debenture interest, not part of it, is a proper charge against profits. The amount of the tax must be ascertained and added back to the debenture interest. The amount of the tax must also be deducted from the Income Tax Account. The amount of the tax is found by arithmetical process. If, for example, the tax is nineteen-fortieths of the gross amount taxable, the amount stated as "Debenture Interest" is equal to twenty-one-fortieths of the full amount. To raise the amount to the proper sum, apply the formula: £420 $\times \frac{40}{21}$, which will yield the *gross* amount taxable, i.e. £800.

PREMIUMS ON DEBENTURES

Nature of these Profits. Premiums received by a limited company on the issue of its debentures are *capital* profits, i.e. not profits available for dividend, and are retained in the business as working capital. Unless, however, the Articles of Association expressly forbid it, there seems nothing to prevent a company from taking such profits to its Profit and Loss Account, as divisible profits, although such a practice is strongly condemned by all the leading accountants. The term "capital profits" is used in contradistinction to "revenue profits," which are gains made by trading.

How Dealt With. These premiums are usually transferred to a Capital Reserve Account, and are then available for writing off capital losses, or for writing down the value of intangible assets, such as Goodwill. The ordinary Reserve Fund is often drawn upon for the purpose of dividends, hence the necessity for putting such

profits to a *special* Reserve Account. The expenses of issue (if any) are a first charge against the premium before it is transferred to a Capital Reserve Account. Where the debentures are redeemable, the premium is often transferred to a Debenture Redemption Account, thus forming the nucleus of the fund for repayment

PREMIUMS ON SHARES

Premiums received from an issue of shares must be dealt with according to Section 56 of the Companies Act, 1948, as follows—

(1) Where a company issues shares at a premium whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called "the share premium account," and the provisions of this Act relating to the reduction of the share capital of a company shall, except as provided in this section, apply as if the share premium account were paid up share capital of the company.

(2) The share premium account may, notwithstanding anything in the foregoing subsection, be applied by the company in paying up un-issued shares of the company to be issued to members of the company as fully paid bonus shares, in writing off—

(*a*) the preliminary expenses of the company,

(*b*) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,

or in providing for the premium payable on redemption of any redeemable preference shares or of any debentures of the company.

DISCOUNT ON DEBENTURES

Nature of these Losses. The discount allowed by a limited company on the issue of its debentures is a *capital* loss. The latter term is used in contradistinction to "revenue loss," which is a loss sustained by trading.

How Dealt With. The 8th Schedule of the Companies Act, 1948, enacts that the amount of such discount must be separately stated on the Balance Sheet until the whole is written off. If the debentures are irredeemable, the amount of such discount should, none the less, be gradually written off like Preliminary Expenses but over a long period. Where the debentures are redeemable, the amount of such discount is generally written off over the period of the debenture loan, e.g. if the debentures are repayable at the end of five years, then one-fifth of the discount will be written off each year. Where, however, the debentures are redeemable by annual drawings of a fixed amount, the discount must be written off each year in proportion to the amount of debentures

outstanding; so that those years which enjoy the larger portion of the debentures shall bear the larger portion of the discount. The debentures themselves will be shown on the Balance Sheet at their nominal or face value.

Example 1. A limited company issued £8,000 debentures at a discount of 5 per cent, repayable at the end of five years. Show the Discount Account in the Ledger for this period.

Dr. DEBENTURE DISCOUNT *Cr.*

Year		£	Year		£
1	To Debentures	400	1	By Profit and Loss ($\frac{1}{5}$ of £400)	80
				„ Balance c/d.	320
		£400			£400
2	To Balance b/d	320	2	By Profit and Loss ($\frac{1}{5}$ of £400)	80
				„ Balance c/d.	240
		£320			£320
3	To Balance b/d	240	3	By Profit and Loss ($\frac{1}{5}$ of £400)	80
				„ Balance c/d.	160
		£240			£240
4	To Balance b/d	160	4	By Profit and Loss ($\frac{1}{5}$ of £400)	80
				„ Balance c/d.	80
		£160			£160
5	To Balance b/d.	80	5	By Profit and Loss ($\frac{1}{5}$ of £400)	80

Example 2. A limited company issued £8,000 debentures at a discount of 5 per cent, repayable by annual drawings of £1,600. Show the Discount Account in the Ledger for the period of duration of the debentures.

The Debentures outstanding	1st year will be	£8,000
„ „ „	2nd „ „	6,400
„ „ „	3rd „ „	4,800
„ „ „	4th „ „	3,200
„ „ „	5th „ „	1,600
		£24,000

Therefore $\frac{80}{240}$ths of the Discount must be written off in the first year, $\frac{64}{240}$ths the second year, and so on. Or, more shortly, the Discount must be written off in the ratio of the years taken backwards. Now $5 + 4 + 3 + 2 + 1 = 15$; and the proportions will therefore be $\frac{5}{15}$ths, $\frac{4}{15}$ths, $\frac{3}{15}$ths, $\frac{2}{15}$ths, and $\frac{1}{15}$th respectively.

Dr. DEBENTURE DISCOUNT Cr.

Year		£	s.	d.	Year		£	s.	d.
1	To Debentures .	400	–	–	1	By Profit and Loss ($\frac{1}{3}$ of £400) .	133	6	8
						,, Balance c/d. .	266	13	4
		£400	–	–			£400	–	–
2	To Balance b/d .	266	13	4	2	By Profit and Loss ($\frac{4}{15}$ of £400)	106	13	4
						,, Balance c/d. .	160	–	–
		£266	13	4			£266	13	4
3	To Balance b/d. .	160	–	–	3	By Profit and Loss ($\frac{1}{5}$ of £400) .	80	–	–
						,, Balance c/d. .	80	–	–
		£160	–	–			£160	–	–
4	To Balance b/d. .	80	–	–	4	By Profit and Loss ($\frac{2}{15}$ of £400)	53	6	8
						,, Balance c/d. .	26	13	4
		£80	–	–			£80	–	–
5	To Balance b/d. .	26	13	4	5	By Profit and Loss . ($\frac{1}{15}$ of £400)	26	13	4

PRELIMINARY EXPENSES

Nature. All expenses incidental to the formation, registration, incorporation, flotation, and commencement of business are, in the case of a joint stock company, debited to a special account entitled "Preliminary Expenses." They are also called "Formation Expenses" and "Promotion Expenses." They comprise the following—

(1) Solicitors' fees for drawing up Memorandum and Articles of Association.

(2) Registration fees, stamp duties on the nominal capital, stamp duties on the Memorandum and Articles of Association.

(3) Cost of printing Memorandum and Articles of Association.

(4) Cost of Share Registers, seal, etc.

How Dealt with in the Books. Where the preliminary expenses are not borne by the vendor, the amount will appear in the company's books. It is in *the nature* of capital expenditure, and it has been suggested that as a matter *of law* it might be upheld as an asset permanently. It is, however, the universal practice to write it off against revenue over a period of years, usually three to five, according to the size of it.

In examination work, preliminary expenses should not be written off unless specific instructions are given to do so. The balance of the account not written off must be shown on the assets side of the Balance Sheet until the whole amount has been finally extinguished.

COSTS OF ISSUING SHARES AND DEBENTURES

Nature. Such expenses must be distinguished from preliminary expenses as they must be stated separately in the Balance Sheet until they are written off.

They comprise the following—

(1) Accountants' and Valuers' Fees for preparing reports for the prospectus.

(2) Solicitors' Fees for drawing up the prospectus.

(3) Costs of printing the prospectus, letters of allotment, letters of regret, call notices, etc.

(4) Costs of advertising the issue.

(5) Costs of preparing the debenture trust deed.

How Dealt with in the Books. Like preliminary expenses, they should be written off over a period, usually three to five years.

DEBENTURES AS COLLATERAL SECURITY FOR LOAN

Collateral Security. A collateral security (Latin *collateralis* = by the side of) is a subsidiary or secondary security, that is, a security in addition to the principal security. A collateral security is not intended to be realized except in the event of the principal security proving insufficient. Some companies issue debentures as collateral security for a bank overdraft or a bank loan.

Entries in the Books. The amount of the debentures so issued is entered "short" on the Balance Sheet, i.e. not extended into the money columns, and a note is added explaining that the debentures have been issued as security for a bank loan or overdraft as the case may be. It is the practice of some accountants to credit the amount of such debentures to the Debentures Account itself, and to debit it to a Debenture Suspense Account, the latter appearing temporarily on the assets side of the Balance Sheet. When the loan has been repaid, or the overdraft extinguished, and the debentures released, then a Journal entry is passed crediting the Debenture Suspense Account, thus closing it, and debiting the Debentures Account, thus reducing the latter to its original amount.

Example. A limited company has an authorized debenture issue of £80,000 in bonds of £100 each. £50,000 of such bonds have been issued at par to the public, and the money has been duly received. £10,000 of the remainder has been issued to its bankers as collateral security for a loan of £8,000. How should these facts be recorded in the company's Balance Sheet?

BALANCE SHEET

	£
Debentures—	
500 Bonds of £100 each at par	50,000
Loan from Bankers (Secured by issue of £10,000 Debentures). .	8,000

QUESTIONS

1. What companies enter the *Nominal* capital in their books? Submit *pro forma* Journal entries in such a case. What objection is raised to this practice?
2. Can Interest be charged on Calls in Arrear? If so, what entries are necessary in the books?
3. Can Interest be paid on Calls in Advance? If so, what entries will be required in the books?
4. What is meant by "Forfeiture of shares"? What is the ex-shareholder's liability for the money owing?
5. State briefly the provisions of Table A with reference to forfeiture of shares.
6. What entries are required in the books when shares are forfeited?
7. What happens to the Cash which has actually been received on forfeited shares? Would it be correct to carry it to the Profit and Loss Account as a divisible profit?
8. Can forfeited shares be re-issued? If so, at what price? How should the balance (if any) on Forfeited Shares Account after re-issue be treated?
9. What entries are necessary in the books when forfeited shares are re-issued?
10. What is Debenture Interest? What entries are necessary to record it in the books?
11. What deduction does a company usually make when paying Debenture Interest? Should the Interest be debited to Profit and Loss Account or to the Appropriation Account? Give reasons for your answer.
12. What procedure is adopted in paying Debenture Interest (*a*) in large companies, (*b*) in small companies?
13. Explain the meaning of "unclaimed" or "unpaid" Debenture Interest. How should it be treated in the Company's Balance Sheet?
14. How should the item "Debenture Interest *less tax*" be treated in the Profit and Loss Account, and why?
15. Explain briefly how Premiums on Shares and Debentures are dealt with.
16. What is meant by the terms "capital profits," "capital losses"?
17. How should Discount on Debentures be dealt with (*a*) when the Debentures are all redeemable at the end of a fixed period, (*b*) when the Debentures are redeemable by annual drawings of a fixed amount, (*c*) when the Debentures are irredeemable?
18. State the conditions under which shares may be issued at a discount.
19. Explain the classes of share sanctioned by the Companies Act, 1948.
20. State briefly how the Arrears of Cumulative Preference Dividend should be dealt with (*a*) in the books, (*b*) on the Balance Sheet.
21. What are Preliminary Expenses, and what do they usually include?
22. How should Preliminary Expenses be treated in the company's books?
23. What is meant by "Debentures as Collateral Security for Loan"? What entries are necessary in the company's books and Balance Sheet in such cases?
24. What is underwriting? Is an agreement to *place* shares an underwriting agreement? Under what conditions may a company pay commission to persons for procuring subscriptions to shares?
25. Must commission paid in respect of shares or debentures, or discount allowed on shares and debentures, be made known to the shareholders?
26. What statutory provisions are there with reference to the audit of a company? Must the auditor's report and balance sheet be published? Have debenture holders a right to receive and inspect the auditor's report and balance sheet?
27. What are the rights and duties of an auditor as laid down by the 1948 Act?

28. What are the statutory requirements for companies incorporated outside Great Britain which establish a place of business within Great Britain?

29. What is share capital? Explain the following terms with reference to a company's capital: Nominal, authorized, registered, issued, subscribed, called-up, paid-up, uncalled, reserve. Apply the above terms to the following example: A company was formed with a capital of £250,000 in shares of £1 each, and duly incorporated. It issued to the vendors 50,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 150,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 300 shares.

30. What is a share? Explain the following kinds: Ordinary, preferred ordinary, deferred ordinary, preference, cumulative preference, redeemable preference, deferred, founders', management.

31. Explain the following terms with reference to the issue of shares and debentures: At par, at a premium, at a discount, over-subscribed, calls in arrear, calls paid in advance.

EXERCISE XV (B)

1. A Limited Company issued, at par, 200,000 Ordinary Shares of £1 each, and £80,000 Debentures, in bonds of £100 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, draw out Trial Balance, and make a Balance Sheet.

2. A Limited Company issued 200,000 Preference Shares of £1 each at 22s. 6d. per share, and £80,000 Debentures at a premium of 5 per cent; which were all subscribed and fully paid up. Make the necessary Journal, Cash Book, and Ledger entries, and draw up Trial Balance and Balance Sheet.

3. A Limited Company issued £80,000 Debentures, in bonds of £100 each, at £95 per bond; which were all subscribed and fully paid up. Make the necessary Journal, Cash Book, and Ledger entries, and draw up Trial Balance and Balance Sheet.

4. A Limited Company issued 200,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. per share on Allotment, and 5s. per share on each of two subsequent calls. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and show Trial Balance and Balance Sheet.

5. A Limited Company issued 200,000 Preference Shares of £1 each at 22s. 6d. per share, payable 7s. 6d. per share on application (including the premium), 5s. per share on allotment, and the balance in two later calls each of 5s. per share. Make the necessary Journal, Cash Book, and Ledger entries, and show Trial Balance and Balance Sheet.

6. A Limited Company issued, at par, £80,000 Debentures in bonds of £100 each, payable 20 per cent on application, 30 per cent on allotment, and the balance three months later. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger and draw out Trial Balance, and show also the Balance Sheet.

7. A Limited Company issued £80,000 Debentures, in bonds of £100 each, at a premium of 10 per cent, payable 20 per cent on application (including the premium), and 90 per cent on allotment. All the money was duly received. Make the necessary Journal, Cash Book, and Ledger entries, and show also the Trial Balance and Balance Sheet.

8. A Limited Company issued £80,000 6 per cent First Mortgage Debentures, in bonds of £100 each, at a discount of 10 per cent, payable £20 per bond on application, and the balance on allotment. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and draw up Trial Balance, and show also the Company's Balance Sheet.

9. A Limited Company offered for subscription 200,000 shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 230,000 shares. The deposits on 15,000 shares were returned to those persons to whom no shares were allotted. The deposits on the other 15,000 shares were carried forward to the Allotment Account, these subscribers having paid for more shares than were allotted to them. The moneys payable on allotment were duly received. Make the necessary entries in the Company's Journal, Cash Book, and Ledger, to record the above transactions.

10. A Limited Company with a registered capital of £250,000, in shares of £1 each, issued 200,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 250 shares; and another shareholder, who held 200 shares, paid them right up in full. Make the necessary Journal and Cash Book entries in the company's books to record the above transactions, and show the company's Balance Sheet.

11. Make the Journal entries necessary in order to record the undermentioned transaction—

The Ravary Printing Machine Co., Ltd., issued on 30th June, 100,000 Ordinary £1 shares at a premium of 5s. per share, payable on application. The shares applied for were payable as to 10s. per share on application, and as to 15s. per share upon allotment. The issue was fully subscribed by the public. Allotment duly took place for the whole issue on 15th July. (*London Chamber of Commerce.*)

12. The Blarneystone Diamond Syndicate, Ltd., has a Nominal Capital of £80,000, divided into 10,000 8 per cent Preference Shares of £4 each and 40,000 £1 Ordinary Shares. On 2nd January, 8,000 Preference and 20,000 Ordinary Shares are applied for, and 5s. per share is received and paid into the Company's Bank. On 1st February these Shares are allotted; 10s. per share being payable on allotment, £3,500 is received for Preference, and £8,000 for Ordinary during February. On 1st March Calls are made, viz. £2 per share Preference and 5s. per share Ordinary, and during March, £13,000 is received for Preference Call, and £3,200 for Ordinary Call. Enter the foregoing transactions, post to Ledger, and state amounts unpaid on each class of share. (*West Riding of Yorkshire.*)

13. From the following particulars, prepare the Balance Sheet as at 31st December, 19.., of the Boscombe Manufacturing Co., Ltd.—

Nominal Capital—
- 30,000 5 per cent Preference Shares @ £1 each.
- 20,000 Ordinary Shares @ £1 each.

Issued Capital—
- 20,000 5 per cent Preference Shares, fully paid except last call of 5s. on 40 shares.
- 18,000 Ordinary Shares, 15s. called. All paid except first call of 5s. on 20 shares.

Add to the Balance Sheet an Appropriation Account showing proposal to pay one year's dividend on the paid-up Preference Shares; 10 per cent Dividend on the paid-up Ordinary Shares. Also provide therein for £500 to General Reserve, the balance to be carried forward to next year.

	£		£
General Reserve	3,000	Machinery and Plant—Cost	12,516
Sundry Debtors	6,560	Cash at Bank	8,134
Appropriation Account balance, 1st January	209	Sundry Creditors	2,473
Stock	7,430	Insurance unexpired	146
Goodwill	12,000	Bad Debts Provision	500
Machinery and Plant at 31st Dec.	8,760	Depreciation of Plant and Machinery for year	572
		Profits for the year	2,791

(*Institute of Book-keepers.*)

14. Prepare a *pro forma* set of final accounts, showing therein a sufficient number of items to satisfy an examiner that you know which items are peculiar to each section thereof. Also, insert figures to indicate a grasp of practical values, and a sense of proportion in regard to the whole business whose "accounts" you are preparing. (It may be suggested that the concern has a capital of £500,000—then the component values of items in the accounts must be in proportion—but you choose any figures.)

15. The Nominal Capital of Messrs. William Pearson & Co., Ltd., consists of 50,000 shares of £1 each. On 31st December, the Ledger Balances of the Company were as follows—

	£		£
Share Capital (Issued 30,000 shares of £1 each with 10s. per share called up)	15,000	Manufacturing Wages	12,450
Unpaid calls	150	Salaries	1,230
Cash in hand	190	Discount *Cr.*	48
Sundry Creditors	1,960	Carriage and Cartage	395
Sundry Debtors	3,640	Rates and Taxes	111
Cash at Bank	1,150	Insurance	98
Reserve Fund	4,000	Sales	62,850
Machinery and Plant	6,000	Trade Expenses	382
Mortgage Debentures (45 debentures of £100 each at 5% interest)	4,500	Repairs	174
Freehold Premises	11,500	Purchases	41,800
Stock (1st January)	8,800	Unpaid Dividends	252
		Bad Debts	191
		Office Expenses	124
		Interest paid on Debentures	225

Machinery and Plant—original cost less Sales was £10,434.

Stock was taken as on 31st December, and was valued at £6,820.

Before closing the accounts the following adjustments are necessary—

Make a provision of 5 per cent for bad and doubtful debts. Depreciation at the rate of 10 per cent is to be written off the Machinery and Plant Account. Prepare Trading and Profit and Loss Accounts for the year ended 31st December. Take £1,000 to the Reserve Fund, and prepare a Balance Sheet as on that date. (*London Chamber of Commerce.*)

16. Peter Pink and Benjamin Brown are in partnership, sharing profits and losses, two-thirds to Peter Pink and one-third to Benjamin Brown. Interest on Capital to be credited to the partners annually. The following adjustments must be taken into consideration when preparing the Trading and Profit and Loss

Account, and Balance Sheet which is required, as per Deed of Partnership, to be drawn up at the end of each year.

(1) Quarter's rent owing.
(2) Insurance unexpired, £21.
(3) Interest accrued on Investments—Tax @ 4s. 6d.
(4) £400 Advertising to be carried forward.
(5) Write off bad debts, £67.
(6) Depreciate Office Furniture at 5 per cent per annum.
(7) Rates unexpired, £36.

	£		£
Current Accounts (*Dr.* side)—		Capital Accounts—	
P. Pink (Withdrawals during year)	1,004	P. Pink	3,600
B. Brown (Withdrawals during year)	847	B. Brown	1,600
Office Furniture	840	Creditors	854
Sundry Debtors	2,934	Sales	43,021
Purchases	37,060	Returns Outwards	220
Stock, 1st Jan	1,880	Discounts (balance)	331
Carriage Inwards	292	Provision for Bad Debts	500
Returns Inwards	125	Interest on Investments (6 months)	31
Rent	375	Current Accounts (*Cr.* side)—	
Salaries	630	P. Pink	120
Carriage Outwards	56	B. Brown	80
Advertising	800		
Rates	180		
Insurance, £62; National Insurance, £27	89		
Telephone	26		
General Expenses (including Stationery)	197		
Postage	117		
Repairs	21		
Electric Light	18		
Bank Charges	6		
Investments, £1,600 5% Rly. Stock	1,557		
Cash at Bank	1,293		
Cash in hand	10		
	£50,357		£50,357

(Institute of Book-keepers.)

Stock 31st Dec., 19.., £1,287.

17. From the following Trial Balance of the Accounts of a Manufacturing Company (whose Authorized Capital consists of 15,000 Ordinary Shares of £10 each) prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

	£		£
Capital issued and fully paid up, 9,000 shares of £10 each	90,000	Purchases Returns	750
Stock (1st January)	32,000	Manufacturing Charges	11,500
Cash in hand	150	Manufacturing Wages	28,550
Cash at Bank	2,900	Salaries	1,500
Purchases	52,350	Trade Expenses	6,850
Sales	136,500	Rates and Taxes	250
,, Returns	400	Insurance	190
		General Expenses	2,640
		Discounts (balance) *Dr.*	1,800

	£		£
Bad Debts	570	Patents	5,000
Interest and Bank Charges	350	Bad Debts Provision (1st January)	2,600
Land and Buildings	22,250	Profit and Loss (*Cr.* balance 1st January)	750
Machinery and Plant	35,600	Reserve Account	5,000
Sundry Debtors	52,500		
Sundry Creditors	21,750		

Charge Depreciation on Land and Buildings Account at 3 per cent per annum, and on Machinery and Plant Account at 6 per cent. Make a Provision of 5 per cent on the Sundry Debtors for Bad Debts; write down Patents Account by 10 per cent; carry forward £90 of Insurance; and charge £500 as Directors' Fees. The value of the Stock, as on 31st December, was agreed at £23,700. Charge 10 per cent on net profits as remuneration to the Managing Director, and appropriate £2,500 to the Reserve Account, carrying forward the balance. Assume your own figures for original cost of the fixed assets. (*R.S.A.*)

18. The Brown Box Co., Ltd., was registered with a Nominal Capital of £10,000 divided into 5,000 Ordinary Shares of £1 each and 5,000 6 per cent Preference Shares of £1 each. From the following Trial Balance, extracted from the books of the company, prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date—

	£	*s.*	*d.*		£	*s.*	*d.*
Ordinary Share Capital	4,800	-	-	Ordinary Share Dividend	114	-	-
Preference Share Capital	3,000	-	-	Bad Debt Provision (1st January)	188	14	8
Freehold Land and Buildings	3,700	-	-	Manufacturing Wages	2,014	1	9
Furniture and Fixtures	946	6	10	Salaries	505	14	8
Stock (1st January)	1,929	14	7	Sales	10,124	14	2
Plant and Machinery	1,727	10	2	„ Returns	101	2	10
Rates and Taxes	87	14	1	Insurance	39	1	2
Carriage	422	4	8	Directors' Fees	50	-	-
Trade Expenses	39	1	1	Purchases	4,129	16	8
Lighting and Heating Expenses	72	2	6	„ Returns	94	12	4
General Expenses	127	16	10	Sundry Debtors	3,764	17	10
Discount Account (balance) *Cr.*	13	2	-	Sundry Creditors	2,144	5	1
Preference Share Dividend	171	-	-	Profit and Loss Account (*Cr.* balance)	472	7	2
				Bank Charges	10	2	1
				Cash at Bank	822	5	7
				„ in hand	63	2	1

Before preparing the Accounts (as above required), the following adjustments are necessary—

(1) Charge Depreciation on Land and Buildings at $2\frac{1}{2}$ per cent per annum.
(2) Do. Furniture and Fixtures at 5 per cent per annum.
(3) Do. Plant and Machinery at 10 per cent per annum.
(4) Make the Bad Debt Provision up to £400.
(5) Carry forward the following unexpired amounts—
 (*a*) Insurance . . . £9 7 6
 (*b*) Rates and Taxes . . . £17 8 2
(6) Assume your own figures for original cost of fixed assets.

The value of the Stock on 31st December was certified by the Managing Director at £1,721 17s. 3d. (*R.S.A.*)

19. The secretary of the Cheshire Manufacturing Co., Ltd., takes out his balances on 31st December, and submits to you the following particulars, from which prepare Trading Account, Profit and Loss Account, and Balance Sheet—

Nominal Capital, £150,000, divided into 5,000 Preference Shares of £10 each, and 10,000 Ordinary Shares of £10 each.

	£		£
5,000 Preference Shares, £10 each, £2 paid	10,000	Bad Debts	275
10,000 Ordinary Shares, £10 each, £5 called up	50,000	Postage, etc.	86
150 5% Mortgage Debentures of £100 each, issued at 95	15,000	Rates, Taxes, and Insurance	524
Cost of issue of Debentures	750	Travelling Expenses	302
Purchases	43,249	Interest and Bank Charges	75
Land and Buildings	25,100	Directors' Fees	550
Fuel	570	Stock (1st January)	11,420
Plant and Machinery	5,620	Sundry Debtors	24,300
Repairs	445	Sundry Creditors	9,160
Loose Tools (1st January)	1,752	Carriage Inwards	220
Office Expenses	363	Goodwill	10,000
Sales	53,847	Carriage Outwards	410
Wages	9,371	Debenture Interest paid	375
Discounts Received	324	Profit and Loss Account, balance of loss brought forward from last account	2,243
Discounts Allowed	517	Unpaid Calls, Ordinary Shares	250
Salaries	975	Bank Overdraft	1,525
		Cash in hand	114

Accrued Debenture Interest, £375. Accrued Wages, £50. Provide for Bad Debts, £400; Insurance prepaid, £21. Depreciate Land and Buildings 1 per cent, and Plant and Machinery 10 per cent. Provide for Discounts, 5 per cent on Sundry Debtors and $2\frac{1}{2}$ per cent on Sundry Creditors. Stock at 31st December, £18,763. Assume any other figures that may be necessary.

Value of Loose Tools at 31st December, £2,000. (*U.L.C.I.*)

20. The Highburn Manufacturing Co., Ltd., with a Nominal Capital of 40,000 Ordinary Shares of £1 each, by the Memorandum and Articles of Association have power to issue 200 Debentures of £50 each bearing interest at $4\frac{1}{2}$ per cent per annum.

On 30th June, the Ledger Balances were abstracted as follows—

	£		£
Share Capital 40,000 Shares of £1 each, 15s. called	30,000	Bank Interest and Commission *Dr.*	114
Calls in Arrear	205	Bad Debts written off	249
Debentures issued, 100 at £50	5,000	Premises	12,450
Stock (1st July)	6,537	Machinery and Plant	18,750
Purchases	22,448	Fixtures and Fittings	3,750
Returns to Creditors	1,745	Sundry Debtors	12,160
Sales	46,728	Sundry Creditors	7,728
Returns from Customers	1,174	Interest Paid on Debentures	214
General Trade Expenses	1,014	Dividend Paid	1,415
Wages	13,632	Reserve Fund	5,000
Salaries	2,042	Provision for Bad Debts (1st July)	760
Travelling Expenses	758	Cash in hand	43
Advertising	870	Cash at Bank	1,427
Rents, Rates, Taxes and Insurance	858	Profit and Loss Account, *Cr.* balance (1st July)	3,463
Discount (*Dr.* balance)	314		

The Stock on hand on 30th June = £6,900.

Draw up a Trading and Profit and Loss Account, after making the following adjustments, assuming any other figures that may be necessary—

(*a*) Depreciate the Machinery and Plant by 10 per cent, the Fixtures and Fittings by 10 per cent. (*b*) Make up the Provision for Bad Debts to $7\frac{1}{2}$ per cent of the Book Debts. (*c*) Insurances are paid in advance to the extent of £96. (*d*) Make out a Balance Sheet as at 30th June. (*Union of Educational Institutions.*)

21. The North London Engineering Co., Ltd., was registered on 1st January, with a Nominal Capital of £100,000, in Ordinary Shares of £1 each. It had power to issue £15,000 Mortgage Debentures of £100 each, bearing interest at 4 per cent per annum. It took over on that date an existing engineering business and commenced manufacturing. Stock was taken and the books balanced, and accounts prepared annually; and at the close of the year Stock was taken and valued at £14,250. The following adjustments were necessary before closing the accounts—

(*a*) Depreciation to be written off Plant and Machinery at the rate of 10 per cent, and off Patents Account at 20 per cent.

(*b*) The half-year's Debenture Interest due on 31st December to be passed through the books.

(*c*) A 5 per cent provision for Bad and Doubtful Debts to be made.

Make such adjustments and prepare a Trading Account, a Profit and Loss Account, and a Balance Sheet from the following balances (31st December), after carrying £1,500 profit to the Reserve Account.

LEDGER BALANCES (31st December)

	£		£
Share Capital 60,000 Shares of £1 each issued and 10s. per share called up	30,000	Cash in hand	320
Unpaid Calls	300	Sundry Creditors	4,095
Patents	900	Sundry Debtors	7,240
Mortgage Debentures	9,000	Reserve Account	8,500
Freehold Buildings (1st January)	24,000	Machinery and Plant	12,480
Stock (1st January)	17,200	Unpaid Dividends	58
Manufacturing Wages	22,100	Mortgage Debenture Interest	180
Salaries	2,400	Provision for Auditors' Fees	75
Carriage	560	Bad Debts	578
Rates, Taxes, and Insurance	252	Interest Payable and Bank Charges	138
Sales	121,580	Additions to Buildings during the year	3,840
Trade Expenses	721	Holdfast Bank, Ltd. (overdraft)	4,200
Repairs	240	Bad Debt Reserve (1st January)	321
Rents Receivable	374		
Purchases	84,604		

(*R.S.A*)

22. The Nominal Capital of the L. and C. Engineering Co., Ltd., is: £10,000 divided into 10,000 Ordinary Shares of £1 each; £20,000 divided into 20,000 7 per cent Cumulative Preference Shares of £1 each; and the Company is authorized to issue £10,000 divided into 200 5 per cent First Mortgage Debentures of £50 each. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and Balance Sheet as on 31st March.

	£	s.	d.		£	s.	d.
Ordinary Share Capital	10,000	–	–	200 5% First Mortgage Debentures £50 each, £30 paid	6,000	–	–
Preference Share Capital	20,000	–	–	Sundry Creditors	5,609	–	–
Arrears on Ordinary Shares	70	–	–	Sales	24,698	–	–
				Returns off Purchases	287	–	–

	£	s.	d.		£	s.	d.
Profit and Loss (*Cr.* balance, 1st April) .	169	10	–	Rent, Rates, etc.. .	236	10	–
Plant and Machinery .	15,000	–	–	Sundry Expenses .	157	10	–
Patents	3,960	10	–	Discounts Allowed .	760	–	–
Office Furniture .	127	–	–	Bad Debts . . .	127	10	–
Sundry Debtors . .	12,125	10	–	Directors' Fees . .	200	–	–
Purchases . . .	15,965	16	–	Interim Preference Dividend paid 15th October . . .	665	–	–
Returns off Sales .	267	10	–	Bank Charges . .	57	10	–
Salaries . . .	200	–	–	Debenture Interest, *less* tax . . .	285	–	–
Goodwill . . .	9,788	5	–	Cash in hand . .	73	4	–
Stock (1st April) .	2,760	–	–	Lloyds Bank, Ltd. *Cr.* . . .	1,067	10	–
Wages, Productive .	2,576	10	–	Discounts received .	200	–	–
Carriage (Inwards) .	320	5	–				
Carriage (Outwards) .	167	10	–				
Coal and Coke . .	250	–	–				
Loose Tools (1st April)	1,890	–	–				

Stock on hand, 31st March, £3,025 10s. Loose Tools, 31st March, £1,870. Write off Plant and Machinery, 10 per cent per annum. Write off Office Furniture and Fittings, 5 per cent per annum. Write off Patents, 20 per cent per annum. Provide £200 for future Discounts and £150 for Bad Debts. Assume any other figures that may be necessary. (*U.L.C.I.*)

23. Prepare a ruling of a Purchase Invoice Analysis Book of any business you are acquainted with, and show how a Purchase Ledger may thus be dispensed with for a business which pays all accounts on a fixed monthly pay-day. (*Chartered Accountants.*)

24. E. F. and Co., Timber Merchants, of Liverpool, sell a quantity of timber on 1st February for £350 to J. J. & Co., Builders, of Manchester, and draw on them at three months, charging interest at 5 per cent per annum and bill stamp. E. F. & Co., after one and a half months, discount the bill at 4 per cent, with their bankers, and the same is duly met at maturity. Show how the bill should be drawn and accepted, and make the Ledger entries as they should appear in the books of the two firms. (*Chartered Accountants.*)

25. Jones & Co., of London, consign to Smith & Co., of Melbourne, 50 tons of steel at £12 10s. per ton plus insurance and freight, which cost 15s. per ton, and in due course receive from Smith & Co. an Account Sales dated 31st December, as follows—

ACCOUNT SALES OF 50 TONS STEEL, EX "ORMUZ"

Capt. Robinson, from London, sold on account of Jones & Co., 31st December, 19..—

SALES—10 tons Steel @ £16 10s. per ton .	£165	–	–			
20 ,, ,, @ £16 ,, ,, .	320	–	–			
10 ,, ,, @ £15 10s. ,, ,, .	155	–	–	£640	–	–
CHARGES—Customs Entry and Stamps .		15	–			
Unloading, Weighing, Storing, Rent	15	–	–			
Fire Insurance	1	–	–			
Commission 5% £640 . .	32	–	–	48	15	–
				£591	5	–

Stock of Steel on hand, 10 tons,

E. & O. E.

Melbourne, 31st December, 19..

SMITH & Co.

Write up the Consignment Account in detail in Jones & Co.'s books to 31st December, 19.., and show the profit to that date. (*Chartered Accountants.*)

26. W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co., profits being shared as follows: W. Lone, $\frac{2}{3}$rds; and T. Stanley, $\frac{1}{3}$rd. The following is the Balance Sheet of Lone, Stanley & Co., 31st December—

	£		£
W. Lone, Capital Account	2,000	Cash	200
T. Stanley	1,800	Sundry Assets	27,600
Sundry Creditors	24,000		
	£27,800		£27,800

On the 1st January next, they admit M. Maxwell as a partner, on the following terms—

(*a*) Profits are to be divided as to $\frac{3}{6}$ths to W. Lane, $\frac{2}{6}$ths to T. Stanley, and $\frac{1}{6}$th to M. Maxwell.

(*b*) M. Maxwell to bring in £1,000 as his Capital.

(*c*) A Goodwill Account is to be raised for £1,800, this sum to be credited to the old partners.

(*d*) W. Lone is at liberty to withdraw £400 of his capital on 1st January.

(*e*) M. Maxwell to have a salary of £400 per annum out of profits.

(*f*) Interest to be allowed on partners' Capital Accounts at the rate of 5 per cent per annum. No interest on ordinary Drawings to be taken into account. Each partner is at liberty to draw £40 a month in anticipation of profits (in the case of M. Maxwell the £40 is in anticipation of profits and salary).

Assume that all transactions mentioned above have been carried out. The profits for the year ended the 31st December, before making any allowance for M. Maxwell's salary or for interest on partners' capital, amounted to £2,510.

Show the partners' Capital Accounts at 31st December. (*U.L.C.I.*)

CHAPTER XV—(*contd.*)

COMPANIES

Section (C)

Appropriation Account, Dividends, Arrears of Dividend, Profits or Losses prior to Incorporation, Interest Paid out of Capital, Profits Available for Dividend

APPROPRIATION ACCOUNT

In dealing with the profits or losses shown by the Profit and Loss Account of a sole trader or partnership, there is no doubt as to the double entry to be made. With the sole trader the item will, of course, be credited or debited to the Capital or Current Account of the Proprietor, whilst with partnerships the deed will contain the necessary instructions, failing which the Partnership Act, 1890, states clearly that all partners are to share profits or bear losses equally.

When dealing with the accounts of a limited company the Capital Account cannot be increased or decreased in this manner and it is, therefore, necessary to provide a special account into which to transfer the profits pending the adoption by the shareholders of the recommendations of the directors as to their disposal.

The name given to this special account is, therefore, most apt as the profits are in effect placed on one side until their appropriation has been decided upon. It is the book-keeping entries necessary to carry into effect such decisions with which this section is concerned.

A representative specimen of an Appropriation Account is appended. It is proposed to explain each item quite briefly, and then to amplify these by further illustrations.

Credit Side. *Balance* £15,192. Whilst, in arriving at the profit for each year, provision is made for all estimated losses and expenses and the result is, therefore, as correct a figure as can be arrived at, a conservative policy must still be adopted by the directors and it is the custom to leave a part of the profits unappropriated. This figure represents an accumulation of such balances at this date. A most important point to remember is that such a balance appearing in the Trial Balance must *not* be credited to the Profit and Loss Account.

Net Profit for the Year. This is, of course, the surplus as shown by the Profit and Loss Account for the current year.

Profit on Sale of Investments. As this is not an ordinary profit on

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr.

19..		£	19..		£
June 3	To Interim Dividend 5% Preference shares . .	1,000	Jan. 1	By Balanced b/d .	15,192
,,	,, Interim Dividend on 6% 2nd Preference shares .	2,000	Dec. 31	,, Net Profit for year b/d . .	11,601
Dec. 31	,, Final Dividend on 5% Prefer-shares . .	2,000		,, Profit on sale of investments .	7,875
,,	,, Final Dividend on 6% 2nd Preference shares .	3,000			
,,	,, Dividend on Ordinary Shares at 10% p.a. .	6,000			
,,	,, Amount written off Goodwill .	2,000			
,,	,, Amount written off underwriting Commission .	750			
,,	,, General Reserve.	5,000			
,,	,, Staff Pension Fund . .	1,500			
,,	,, Dividend Equalization Res. .	5,000			
,,	,, Balance c/f .	6,418			
		£34,668			£34,668

trading it should not be included in the Profit and Loss Account as the profits figure would not then be comparable with other years.

Debit Side. *Dividends Paid in June.* With one exception (which is dealt with at page 617), dividends can be paid only out of profits, and the main dividend-paying period is, therefore, after the audited accounts have been prepared for the year. The directors then make their recommendations which are submitted to the shareholders for confirmation. At the same time, where shares carry a fixed dividend and are preferential as to payment, it is quite usual for the directors to declare a small dividend during the year (in the interim), if the accounts would appear to make this possible. The board of directors are usually empowered to do this without obtaining the sanction necessary for a final dividend. The book-keeping entries are dealt with under the heading of DIVIDENDS later in this section. One other important point of difference between the interim and final dividends is in the entries to be made on the Balance Sheet. Interim dividends will have been paid and

do *not*, therefore, appear as liabilities on the Balance Sheet. Final dividends are only provided for and not paid before the accounts are closed. They must, therefore, show on the Balance Sheet as "Unpaid dividends" or "Proposed dividends."

Amounts written off Goodwill and Underwriting Commission. The writing off of intangible and fictitious assets cannot, of course, be done through the Profit and Loss Account as they are not charges or expenses in connexion with any particular year.

General Reserve. Its name indicates that it is not for any specific purposes. The setting aside of a part of the profits in this way is known as "ploughing" the profits back into the business.

Staff Pension Fund. This item is self-explanatory as to its purpose but if, like the General Reserve, the transfer was merely an entry on paper, no Fund would in fact be created. A corresponding amount would be taken from the Bank Balance and invested. The Balance Sheet would, therefore, show two entries for the same amount, Staff Pensions Fund as a liability and Staff Pensions Investment Account as an asset.

Dividend Equalization Reserve. From the point of view of raising further capital by additional issues of shares, it is to the company's advantage that the price of its shares on the Stock Exchange shall not fluctuate unnecessarily. The regular payment of reasonably good dividends will assist in keeping them steady. By making a Reserve in good years the directors may draw upon it should the profits fall below the average, and so be enabled to pay the same dividend as in a normal year.

Example 1. At 1st January, 19.., a company has a credit balance on Appropriation Account of £4,965 7s. 3d. and the net profit for the year was £25,241 9s. 8d. During the year a half year's dividend was paid on 50,000 6 per cent preference shares and the directors now propose that the balance available for distribution should be appropriated as follows—

1. To pay the final dividend on the preference shares.
2. To pay a dividend of 10 per cent on the 100,000 ordinary shares.
3. To transfer £2,500 to Staff Welfare Fund.
4. To write off the existing balance of Goodwill—£5,000.
5. To transfer 50 per cent of any balance, after making the above provisions, to General Reserve.
6. To carry forward the balance.

Draft the Profit and Loss Appropriation Account to give effect to the above and carry the items to a skeleton Balance Sheet. Income tax is to be ignored.

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
July 1	To Preference share dividend .	1,500	–	–	Jan. 1	By Balance b/d .	4,965	7	3
Dec. 31	„ Preference share dividend (Final) .	1,500	–	–	Dec. 31	„ Net profit b/d .	25,241	9	8
	„ Ordinary share dividend .	10,000	–	–					
	„ Staff Welfare Fund .	2,500	–	–					
	„ Goodwill A/c .	5,000	–	–					
	„ General Reserve .	4,853	8	6					
	„ Balance b/d .	4,853	8	5					
		£30,206	16	11			£30,206	16	11

BALANCE SHEET

AS AT 31ST DECEMBER, 19..

	£	£	s.	d.		£	£	s.	d.
Authorized and Issued Capital—					*Goodwill—*				
50,000 6% Preference shares of £1 each fully paid . . .	50,000				Balance at 1st January, 19.. .	5,000			
100,000 Ordinary shares of £1 each fully paid	100,000	150,000	–	–	*Less* written off .	5,000			
General Reserve . . .		4,853	8	5					
Profit and Loss Appropriation A/c		4,853	8	5					
Staff Welfare Fund . .		2,500	–	–					
Proposed dividends—									
Preference shares . .		1,500	–	–					
Ordinary shares . .		10,000	–	–					

Note particularly that the interim dividend does not appear as a liability as it has already been paid.

Example 2. The Lavender Manufacturing Co., Ltd., was registered with a nominal capital of 15,000 ordinary shares. All are issued but 5,000 are only 15s. paid. They rank for dividend from 1st January. In addition to a nominal fee of £105 p.a., the managing director is entitled to 10 per cent of the net profit after charging such figure. The net profit, subject to the above, was £4,400. The credit balance on Appropriation at 1st January was £612. Out of the available surplus the directors propose to carry £2,000 to a General Reserve, and pay a dividend of 17½ per cent on all shares.

Show the Appropriation Account to give effect to the above and carry the items to a Balance Sheet.

Dr. PROFIT AND LOSS APPROPRIATION ACOUNT Cr.

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To dividend on fully paid shares .	1,750	–	–	Jan. 1	By Balance b/d .	612	–	–
	„ dividend on partly paid shares .	656	5	–	Dec. 31	„ Net Profit for year b/d . . .	4,000	–	–
	„ General Reserve .	2,000	–	–					
	„ Balance c/d .	205	15	–					
		£4,612	–	–			£4,612	–	–

BALANCE SHEET

AS AT 31ST DECEMBER, 19..

	£	£	s.	d.	
Authorized Capital—					
15,000 Ordinary shares of £1 each . .	15,000				
Issued Capital—					
10,000 Ordinary shares of £1 each fully paid .	10,000				
5,000 Ordinary shares of £1 each, 15s. paid	3,750	13,750	–	–	
General Reserve		2,000	–	–	
Profit and Loss Appropriation A/c		205	15	–	
Managing Director's Remuneration . .		400	–	–	
Proposed dividends—					
Fully paid shares .	1,750 – –				
Partly paid shares	656 5 –	2,406	5	–	

The two main points to note in this example are: 1. The managing director's remuneration does not appear in the Appropriation, but being unpaid it must show as a liability. The amount is arrived at by calculating $\frac{10}{110}$ths of £4,400. 2. See next page as to the payment of dividends on partly paid shares.

DIVIDENDS

What is a Dividend? A dividend (Latin *dividendum* from *dividere* = to divide) is a share of the profits of a company, the profits being *divided* among the shareholders. Strictly speaking, the term "dividend" applies only to the *total* sum divisible; it is also used, however, to denote the *portion* received by each individual shareholder. Dividends are proposed or recommended by the directors and declared by the company in general meeting, the shareholders having usually to pass a resolution sanctioning the proposed distribution. The dividend then becomes a liability to the shareholders as from the date of its declaration, but does not bear interest against the company.

Interim Dividend. An interim (Latin *interim* = in the meantime) dividend is a dividend declared before the close of the company's financial period, either out of profits that are accruing, or out of profits brought forward from a previous period.

Provisions of Table A. The following provisions of Table A, which are typical of most Articles of Association, should be carefully noted—

114. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

115. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

116. No dividend shall be paid otherwise than out of profits.

117. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for any purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the directors may from time to time think fit. The directors may also, without placing the same to reserve, carry forward any profits which they may think provident not to divide.

118. Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but no amount paid or credited as paid on a share in advance of calls shall be treated for the purposes of this regulation as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid; but if any share is issued on terms providing that it shall rank for dividend as from a particular date, such share shall rank for dividend accordingly.

119. The directors may deduct from any dividend payable to any member all sums of money (if any) presently payable by him to the company on account of calls or otherwise in relation to the shares of the company.

120. Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid-up shares, debentures or debenture stock of any other company. . . .

121. Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder. . . . Any one of two or more joint holders may give effectual receipts for any dividends, bonuses or other moneys payable in respect of the shares held by them as joint holders.

122. No dividend shall bear interest against the company.

Entries for Dividend. When a dividend is declared on any kind of shares a separate Dividend Account is opened. Entries are made as follows—

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	Dr.	*Cr.*
	£	£
Preference Share Dividend	735	
To Preference Shareholders		735
Dividend less tax @ 9s. 6d. in the £.		
Appropriation A/c	735	
To Preference Share Dividend . . .		735
Balance transferred.		

CASH BOOK *Cr.*

Payments	Bank
	£
By Preference Shareholders	735

Sometimes the entry is made direct to the Appropriation Account thus—

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		Dr.	Cr.
		£	£
	Appropriation A/c	735	
	To Preference Share Dividend . . .		735
	Dividend on ....Shares at....................%.... less tax at 9s. 6d. in £.		

CASH BOOK Cr.

Payments	Bank
	£
By Preference Share Dividend A/c	735

How the Dividend is Paid. In large companies a cheque is drawn for the net amount of the dividend (i.e. less tax), and the amount is posted to the debit of the Dividend Account (or Shareholders' Account, as the case may be), thus closing it. The cheque itself is paid in to the credit of a separate Dividend Account at the company's bank, and a separate Dividend Pass Book is kept. Cheques, or **dividend warrants,** as they are called, are then drawn on this account for each shareholder's portion, and are sent to the shareholders concerned. When the shareholders clear their dividend warrants, the amounts will be debited by the bank to this particular Dividend Account, and eventually this account will be closed. When the number of shareholders is not very large, a separate Dividend Account may not be opened at the bank; the dividend warrants may be drawn on the ordinary Bank Account.

Deduction of Income Tax. A limited company is empowered by law to deduct income tax from all dividends paid to its shareholders. There is a notice attached to the dividend warrant, stating how much tax has been deducted, and showing how the amount of the dividend cheque has been arrived at. A limited company is under no obligation to remit to the Revenue Authorities the tax deducted on any particular dividend. The company pays tax on the **whole** of its profits (the assessment being based—for any given year —on the preceding year's profit) and the dividend is regarded as being paid out of a taxed fund. Accordingly it is considered the best practice to show the full tax borne by the company in the appropriation account and to debit only the net amount of the dividend to that account. (This may be contrasted with the treatment of debenture interest which is a charge against profits and which is debited gross to the Profit and Loss Account.)

Unclaimed or Unpaid Dividends. If, at balancing time, there is any balance in the Dividend Pass Book, it will arise from the fact that some of the shareholders have not presented their dividend warrants for payment. This balance must be shown as a liability on the company's Balance Sheet; for the company will still be liable to pay the money, at any rate for a period of twelve years, after which time the dividends may be forfeited. The double entry books themselves will be quite clear. For the Dividend Account will have been credited "*By Appropriation Account*," and debited "*To Cash*"; or, alternatively, it will have been debited "*To Shareholders' Account*" and credited "*By Appropriation Account.*" In either case, therefore, the Dividend Account will be closed. To avoid making a one-sided entry, the unpaid balance of the dividend must consequently be shown on both sides of the Balance Sheet. On the liabilities side it will appear as "*Unclaimed (or Unpaid) Dividends*"; on the assets side as "*Cash at Bank on Dividend Account.*" Very often, however (especially in exercises and examination papers), there is no separate statement of cash; the money with which to pay the dividend is included in the general "Cash at Bank."

Dividend "Free of Tax." A notice sometimes appears to the effect that dividends are *free of tax*. This statement does not mean that such dividends are not taxed; since, as a limited company is taxed on the whole of its profits, it is indirectly taxed on any dividend it pays away. The statement that an ordinary dividend is to be "free of tax" simply means that the shareholder will receive the *gross* amount declared. From the point of view of the Inland Revenue the dividend is merely one of a larger amount less tax at the standard rate and it must be expressed as such on a statement attached to the dividend warrant. Thus a dividend of 11 per cent free of tax is equivalent to one of 20 per cent subject to tax and will be shown in the same way in the dividend statement.

It should be noted that "free of tax" dividend is very seldom paid on preference shares, and such a payment would be irregular unless the shares were issued on those terms. If dividends on preference shares not so issued were paid "free of tax," it would be equivalent to paying a larger dividend and the ordinary shareholders, who are entitled to receive all surplus profits, would be deprived of the amount represented by the tax.

Scrip Dividend. Financial and other companies sometimes take power in their articles to pay free of tax "Scrip" dividends, that is, to distribute, by way of dividend, shares or debentures in other companies.

A company is obliged, under penalty of £10 for each offence (maximum £100), to issue with the dividend a statement in writing

showing the gross dividend, the income tax deducted, and the net amount payable.

Example. The accounts of the *Excelsior Trading Co., Ltd.*, show a net profit of £20,060 for the year ended 31st December. The directors resolve as follows—

1. To pay a dividend of 5 per cent (less tax at 9s. 6d. in the £) on the Preference Shares (£80,000).
2. To pay a dividend of 10 per cent, free of tax, on the Ordinary Shares (£100,000).
3. To transfer £3,000 to the Reserve Fund.
4. To transfer £2,000 to a Dividend Reserve Fund.
5. To carry the balance forward.

Make the necessary entries to carry out the above, and show the Ledger accounts affected.

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		Dr.	Cr.
		£	£
	Profit and Loss A/c	20,060	
	To Appropriation A/c		20,060
	Balance transferred.		
	Appropriation A/c	2,100	
	To Preference Share Dividend A/c . .		2,100
	5% on £80,000 less tax @ 9s. 6d. in the £.		
	Appropriation A/c	10,000	
	To Ordinary Share Dividend A/c . .		10,000
	10% on £100,000, free of tax.		
	Appropriation A/c	3,000	
	To Reserve Fund A/c		3,000
	Amount transferred.		
	Appropriation A/c	2,000	
	To Dividend Reserve A/c . . .		2,000
	Amount transferred.		

CASH BOOK Cr.

Payments	Bank
	£
By Preference Share Dividend A/c	2,100
,, Ordinary Share Dividend A/c	10,000

LEDGER

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

To Appropriation A/c. . .	£ 20,060		By Net Profit .	£ 20,060

Dr. APPROPRIATION ACCOUNT *Cr.*

	£			£
To Pref. Share Dividend .	2,100		By Profit and Loss A/c . .	20,060
,, Ord. Share Dividend .	10,000			
,, Reserve Fund.	3,000			
,, Div'd Reserve.	2,000			
,, Balance c/f .	2,960			
	£20,060			£20,060

Dr. PREFERENCE SHARE DIVIDEND ACCOUNT *Cr.*

To Cash . .	£ 2,100		By Appropriation A/c . .	£ 2,100

Dr. ORDINARY SHARE DIVIDEND ACCOUNT *Cr.*

To Cash . .	£ 10,000		By Appropriation A/c . .	£ 10,000

Dr. RESERVE FUND ACCOUNT *Cr.*

			By Appropriation A/c . .	£ 3,000

Dr. DIVIDEND RESERVE ACCOUNT *Cr.*

			By Appropriation A/c . .	£ 2,000

ARREARS OF DIVIDEND ON CUMULATIVE PREFERENCE SHARES

Treatment in Books and on Balance Sheet. As has previously been stated, the difference between a cumulative preference share and one that is not cumulative is, that with the latter the dividend is payable only if there are sufficient profits available during the particular year in which the dividend accrued; whereas with the cumulative preference share the dividend, if it cannot be paid out of the current year's profits, becomes a first charge on the subsequent years' profits. The question then arises as to how such arrears of dividend should be treated. Should they be brought into the books as an ordinary liability, or should they be left until there are sufficient profits available to pay them? Some accountants believe in bringing them into the books as an actual liability, and journalize them as follows—

Arrears of Preference Share Dividend *Dr.*
To Outstanding Preference Dividend *Cr.*

The arrears then appear on the assets side of the Balance Sheet, as a loss carried forward, while the Outstanding Dividend figures on the liabilities side. When there are sufficient profits available to pay them, then the "Arrears of Preference Share Dividend Account" will be closed by transfer to the Appropriation Account, and the payment of the arrears will be debited to the "Outstanding Preference Dividend Account," thus closing it. The great majority of accountants, however, think that no entry should be made in the books at all. The liability does not accrue until there are sufficient profits available to pay it and also in most cases until the dividend is actually declared. Therefore the arrears are best shown by way of a note in the Balance Sheet. To comply with the 8th Schedule to the Companies Act, 1948, such note should show the amount of the arrears (before deduction of tax) and the period for which the dividends are in arrear.

PROFITS PRIOR TO INCORPORATION

Nature. A limited company frequently takes over a business from a date prior to the date of its own incorporation. If the company, and not the vendor, is entitled to any profits earned prior to its incorporation—and this is often the case in modern agreements—such profits are not available for dividend. A company cannot legally earn profits before its official existence, and a public company not until it has a certificate entitling it to commence business. Such profits are, therefore, capital profits.

How Dealt With. These profits should be put to a Special or Capital Reserve Account. They should not be transferred to the general or ordinary Reserve Fund, i.e. the one which is formed by

accumulations out of Revenue. Profits are often transferred from this Reserve to the Profit and Loss Account in order to make up the profits of less successful years, so that a normal dividend may be paid. If, therefore, capital profits are put to the General Reserve Account, they might inadvertently be paid in dividends, and the directors would be liable to refund the money. Where the vendor has waived his claim to the profits earned prior to incorporation, he is usually entitled to interest on the purchase money until such time as it is actually paid. Such interest should certainly be a first charge on any profits prior to incorporation. The balance of the profits may then be used to make good any depreciation of the fixed assets originally acquired by the company, or to write down Goodwill.

How Ascertained. Strictly speaking, there should, of course, be an actual stocktaking in order that such profits may be accurately ascertained. But where this cannot without very great inconvenience be done, such profits are ascertained approximately. The first year's trading must be divided into two periods, *before* and *after* incorporation. The profit of the first year may be apportioned either according to *time*, or according to *turnover*; that is, either in the ratio which each period of time bears to the total period of time, or in the ratio which each period's turnover bears to the total turnover for the year. The most accurate method however is to apportion each separate item in the Profit and Loss Account on the basis which best applies to that item. Thus gross profit, travellers' commissions and delivery expenses will vary with turnover whereas rent and rates and similar charges vary directly with time. The profits available for distribution will be only such profits as have been earned *subsequent* to the date of incorporation.

PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DECEMBER *Cr.*

	£		£
To Rent and Rates	1,620	By Gross Profit b/d	30,000
,, Insurance	360		
,, Lighting and Heating	1,020		
,, Salaries	3,900		
,, Directors' Fees	1,000		
,, Commission	5,000		
,, Discounts	2,500		
,, General Office Expenses	1,200		
,, Carriage	1,500		
,, Bank Charges	210		
,, Repairs and Renewals	690		
,, Bad Debts	300		
,, Loan Interest	600		
,, Net Profit	10,100		
	£30,000		£30,000

Example. A company was incorporated on the 1st May to take over a business as a going concern from the 1st January of the same year. The total turnover for the year ending 31st December was £100,000, namely, £30,000 for the first period up to 1st May, and £70,000 for the following period. The Profit and Loss Account is given on the previous page. How should the profits earned prior to incorporation be ascertained?

Apportioning expenses on a time basis we get $\frac{4}{12}$ prior to incorporation and $\frac{8}{12}$ after incorporation.

Apportioning expenses on the basis of turnover we get $\frac{3}{10}$ prior to incorporation and $\frac{7}{10}$ after incorporation.

The apportionment would therefore be as follows—

	Before Incorporation	After Incorporation	Total	Basis of Apportionment
	£	£	£	
Rent and Rates	540	1,080	1,620	Time
Insurance	120	240	360	,,
Lighting and Heating	340	680	1,020	,,
Salaries	1,300	2,600	3,900	,,
Directors' Fees	—	1,000	1,000	Fees are only payable by the Company after incorporation
Commission	1,500	3,500	5,000	Turnover
Discounts	750	1,750	2,500	,,
General Office Expenses	400	800	1,200	Time
Carriage	450	1,050	1,500	Turnover
Bank Charges	70	140	210	Time
Repairs and Renewals	230	460	690	,,
Bad Debts	90	210	300	Turnover
Loan Interest	200	400	600	Time
Total Expenses	£5,990	£13,910	£19,900	
Gross Profit	£9,000	£21,000	£30,000	Turnover
Net Profit	£3,010	£ 7,090	£10,100	Difference between Gross Profit and Total Expenses

LOSS PRIOR TO INCORPORATION

How Treated. Where a company takes over a business from a date prior to its own incorporation, and the trading results for this prior period show a loss, such loss must be added to the Goodwill, being in reality an increase of the purchase price. Should there be no account for Goodwill, one must be opened and debited with this loss. Alternatively, however, such loss could be put to a special Suspense Account, and extinguished by capital profits, such as premiums on shares or debentures. The objection to this latter method is that the new company's profits would be used to make good a loss which they should not legitimately bear. It is consistent, that as a profit made before the company's incorporation is Capital, a loss may be so treated, but some doubt has been expressed whether the company should not "err on the safe side," and write off such a loss over a period of years.

INTEREST ON CAPITAL, PAID OUT OF CAPITAL

Non-Revenue Earning Period. During the construction of works or buildings which take a long time to complete, a company is unable to earn any income with which to pay dividends on shares issued for this purpose. In such cases it is legal for companies to pay interest on these shares during this period, called the non-revenue earning period, and to capitalize the interest, i.e. treat it as part of the cost of the works or buildings so constructed. Certain restrictions are imposed, however, as will be seen from the following paragraph.

Provisions of the Companies Act. Section 65 of the Companies Act, 1948, enacts as follows—

Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period and subject to the conditions and restrictions in this section mentioned and may charge the sum so paid by way of interest to capital as part of the cost of construction of the work or building, or the provision of plant—

Provided that—

(*a*) No such payment shall be made unless it is authorized by the Articles or by special resolution.

(*b*) No such payment, whether authorized by the Articles or by special resolution, shall be made without the previous sanction of the Board of Trade.

(*c*) Before sanctioning any such payment the Board of Trade may at the expense of the company appoint a person to inquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry.

(*d*) The payment shall be made only for such period as may be determined by the Board of Trade; and that period shall in no case extend beyond the close of the half-year next after the half-year during which the works or buildings have been actually completed or the plant provided.

(*e*) The rate of interest shall in no case exceed 4 per cent per annum, or such other rate as may for the time being be prescribed by Order of the Treasury.

(*f*) The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.

(*g*) Nothing in this section shall affect any company to which the Indian Railways Act, 1894, as amended by any subsequent enactment, applies.

Other Cases of Interest Paid out of Capital. Parliamentary companies, which are incorporated under special Acts of Parliament, usually have similar powers conferred on them. It is also legal (*Hinds* v. *Buenos Ayres Grand National Tramways Co., Ltd.*, 1906) for companies to capitalize Debenture Interest, or a portion of it, in those cases where the debentures have been issued for the purpose of raising money to defray the cost of construction of works or buildings, or the provision of plant, which will not be ready for use until a much later period. The Debenture Interest capitalized is added to the value of the Property or Works Account. Interest on Calls in Advance may be paid whether there are profits available or not.

Arguments "for." The arguments in favour of charging interest on capital to capital are briefly as follows—

1. If a company engages with a contractor to erect buildings for it for a certain price, the contractor will include in his price not only the actual cost of construction but also interest on the capital outlay up to date of settlement, and also his customary profit; and, therefore, if the company erects the buildings for itself, and the buildings cannot be made productive until they are finished, the company is entitled to charge to capital not merely the actual capital outlay, but also the interest paid on the capital during the period of construction.

2. That the payment to shareholders of a low rate of interest during the construction of the work is the least expensive method of financing it.

3. That as interest can be paid out of capital in the case of loans and debentures, it ought also to be payable in the case of shares.

4. That if interest has not been so charged a false idea is given of the cost of the undertaking. It can scarcely be fairly said that a concern has cost only £50,000 if the £50,000 has been outstanding for a period and interest has, therefore, been lost on it.

Arguments "against." The counter arguments, i.e. against charging interest on capital to capital, are the following—

1. The law makes a distinction between capital contributed by shareholders and capital obtained from lenders and debenture holders.

2. Interest on loans and debentures is rightly payable out of capital; for the company's capital exists for the purpose of paying its creditors.

3. Interest on capital during construction of works is not part of the cost of such works, but merely an expense in the obtaining of capital moneys; and should be treated in the same way as commission and brokerage on the placing of a company's shares, or discount on the issue of a company's debentures. That is, it should be temporarily capitalized, and written off against revenue periodically.

QUESTIONS

1. Explain the terms "dividend," "interim dividend." State briefly the provisions of Table A with reference to dividends.
2. What entries are required in the books when a dividend is declared and paid?
3. Explain the procedure adopted in paying dividends (*a*) in large companies, (*b*) in small companies.
4. What deduction does a company usually make when paying dividends, and how does it deal with the amount so deducted?
5. Explain the meaning of "unclaimed" or "unpaid" dividends. How should they be treated in the company's Balance Sheet?
6. What is meant by the phrase "dividend free of tax"? What is the effect of such a dividend to the shareholder? What is a "scrip" dividend?
7. What is a "Dividend Equalization Fund"? Does it serve a useful purpose?
8. Explain the meaning of the phrase "profits prior to incorporation."

9. How should profits prior to incorporation be dealt with?

10. What methods are there of ascertaining the profits earned prior to incorporation? What are the advantages of the different ways?

11. How should a loss prior to incorporation be dealt with?

12. What necessity is there at times to pay interest on capital out of Capital?

13. What are the provisions of the Companies Act, 1948, with reference to the payment of interest out of Capital?

14. In what other cases can interest on capital be paid out of Capital? State briefly the arguments "for" and "against."

EXERCISE XV (C)

1. (*a*) What is an "Appropriation Account"? Prepare such an account and enter therein items which in your judgment properly belong to it. In this connexion, would "Preliminary Expenses" and "amounts written off goodwill" be proper items to place on its debit side?

(*b*) Explain the following terms—

(1) A charge against profits. (2) An appropriation of profits.

Support your explanations by practical examples of how accountants view and interpret their meaning.

(*c*) Under the Companies Act, 1948, assets are to be distinguished as being "Fixed" and "Current." Assets not falling under these headings are numerous. Name a few of them, and discuss the circumstances in which they arise.

2. After considering the audited accounts of the company for the year ended 31st December, the directors of the Rayon D'Or Publishing Co., Ltd., resolved as follows—

(1) To pay the 6 per cent dividend (less tax) due upon the Preference Stock (£50,000).

(2) To pay a dividend of 8 per cent (less tax) upon the ordinary Share Capital (£60,000).

(3) To transfer £1,500 to the Renewals Reserve Account.

(4) To carry forward the balance.

The profits shown by the Profit and Loss Account amounted to £11,400.

Assume the rate of Income Tax payable to be 5s. in the £. Show the entries necessary to carry out the above resolutions. (*R.S.A.*)

3. The Welsh Manufacturing Co., Ltd., closed its books on the 31st December, with the following balances—

	£		£
Stock at 1st January—		Due to the Ystwyth Banking Co.	2,478
Materials	6,420	Repairs to Machinery	444
Finished Goods	9,400	Wages	15,500
Sundries	530	Salaries	3,400
Materials Purchased	38,000	Insurance	335
Coal and Coke used	1,460	Sales	56,800
Rents, Rates, and Taxes	987	Fittings and Fixtures	650
Sundries purchased (*less* returns)	580	Returns inward	1,740
Discount Account *Dr.* balance	448	Travelling and Exhibition Expenses	948
Sundry Debtors	4,300	Bad Debts	542
Sundry Creditors	2,870	Bad Debts Provision	500
Plant and Machinery	11,750	Reserve Fund	10,000
General Expenses	2,007	Bills Receivable	735
Premises	10,000	Bills Payable	940
Share Capital (60,000 shares at £1 each, 12s. called on each share, and all paid)	36,000	Profit and Loss Account (1st January) *Cr.* balance	2,388
		Dividend paid	1,800

Stocks on hand 31st December—

Materials	£10,743
Finished Goods	19,430
Sundries	340

You are required to draw up a Trial Balance, a Trading and Profit and Loss Account, and Balance Sheet, as at 31st December, having made the following adjustments, assuming any other necessary figures—

Depreciate the Plant and Machinery and Fittings 10 per cent each, and the Premises 2 per cent. Insurance paid in advance, £93. Keep the Bad Debts Provision at £500.

Comment upon the Balance Sheet as to whether you consider the company is in a healthy state, and give suggestions regarding the various items of expenditure, etc. Would you recommend a Dividend: if so, how much? (*Union of Educational Institutions.*)

4. The Postford Manufacturing Co., Ltd., was registered in 19. . The nominal capital of the company consists of 40,000 5 per cent Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each.

No dividend was paid for the previous year ended 31st December, on either class of share.

The company's books were closed and balanced, as on 31st December last, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger Accounts were as follows—

	£		£
Purchases	15,345	Loan on Mortgage (charged on above premises) . .	8,500
Buildings	24,054	Interest and Bank Charges .	402
Fuel	485	Directors' Fees . . .	300
Plant and Machinery . .	5,654	Stocks on hand (1st Jan.) .	8,990
Boiler and Heating Plant .	592	Sundry Creditors . .	10,960
Repairs	472	,, Debtors . . .	9,847
Loose Tools	1,856	Goodwill	4,000
Office Expenses	362	Profit and Loss Account *Cr.* balance (1st Jan.) . .	206
Sales	37,950	Preference Share Capital .	17,520
Wages	13,671	Ordinary Share Capital .	8,000
Discount (Debit balance) .	83	Unpaid Calls . . .	50
Provision for Bad and Doubtful Debts (1st January) .	250	Bills Payable . . .	2,100
Salaries	1,062	Bank Overdraft . . .	2,721
Postages and Telegrams .	116	Cost of New Catalogue .	300
Rates and Taxes . . .	239	Cash in hand . . .	10
Travelling Expenses . .	317		

Before preparing the annual accounts the following adjustments are necessary—

Provision for Bad and Doubtful Debts is to be made at the rate of 5 per cent.

Provide for Depreciation at the following rates—

Plant and Machinery Account, 10 per cent; Boiler and Heating Plant Account, 10 per cent; Loose Tools Account, 20 per cent.

Write off one-third of the cost of New Catalogue and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year. Assume values for original cost less sales of the fixed assets.

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

5. MARTIN HANSON & CO., LTD.

TRIAL BALANCE, 31st December

	£	s.	d.
Preference Shares:			
13,500 £1 5% shares fully paid	13,500	–	–
Ordinary Shares:			
58,000 £1 shares fully paid	58,000	–	–
Debenture Stock 4½%	19,500	–	–
Freehold	23,500	–	–
Fixed Plant (original cost £7,150)	4,400	–	–
Loan Interest paid to 31st Dec.	263	2	10
Directors' Fees	250	–	–
Bank Commission	26	18	3
Subscriptions	29	14	6
Bank Interest *Cr.*	179	17	6
Debenture Trustees' Fees	26	5	–
Loans *Cr.*	5,530	–	–
Bank	6,593	10	10
Reserve Fund	6,100	–	–
Investments	707	–	–
Profit and Loss Account (1st Jan.) *Cr.*	6,493	8	6
Stock (1st Jan.)	8,302	6	2
Purchases	17,315	10	7
Discount Received	221	11	3
Returns Outwards	51	10	11
Sales	48,701	17	2
Loose Tools, etc. (original cost £4,050)	2,750	–	–
Furniture (original cost £420)	200	–	–
Horses, Carts, etc. (original cost £640)	250	–	–
Patterns and Models (original cost £4,900)	3,200	–	–
Goodwill	53,293	–	–
Debenture Interest paid to 31st Dec.	877	10	–
Preference Dividend paid to 31st Dec.	675	–	–
Discount Allowed	1,390	13	11
Wages	18,658	11	7
Bad Debt Account *Cr.*	408	1	9
Coal	1,890	19	1
Insurance	168	1	2
Loans to Workmen	5	12	2
Horse-keep	735	3	4
New Plant (Loose)	385	17	9
New Buildings	81	9	9
New Patterns	525	5	10
Repairs	1,594	–	5
Trade Expenses	635	7	2
Salaries	1,307	1	6
Debtors	11,612	8	5
Creditors	3,363	19	10
Cash	99	16	8
New Electric Light Installation (to be spread over 3 years)	300	–	–

Stock, 31st December: Goods, £8,605 18s. 9d.; Horse-keep, £25.

Dividend accrued due on Investments, £150.

Depreciation: Fixed Plant, 5 per cent; Loose Tools, 7½ per cent; Patterns 10 per cent; Horses and Carts, 20 per cent; Furniture, 5 per cent. Half Depreciation to be charged on additions during year.

Provide £600 for Bad Debts and £667 for Discounts on Debts due.

If there is any surplus profit for the year after paying Debenture Interest and Loan Interest, Preference Dividend and 5 per cent Ordinary Dividend, place 25 per cent of such surplus to a Special Reserve Account.

Prepare Trading and Profit and Loss Account and Balance Sheet, 31st December. (*West Riding of Yorkshire.*)

6. Prepare a Trial Balance comprising 40 items. The items must be arranged under each other with a view to showing, successively, items which belong respectively to the Trading Account, Profit and Loss Account, and Balance Sheet. At the foot of the Trial Balance enumerate items which would normally call for adjustment at the end of the "financial" year.

[The object of this exercise is to gauge how thoroughly students have mastered the component elements of final accounts.]

7. The books of a merchant include two Bought Ledgers and three Sales Ledgers. You are required to arrange that each of these Ledgers shall balance independently, and also that the Cash Book, disclosing the position of the Bank Account, shall not be open to the ledger clerks. Detail the method you would adopt. (*Chartered Accountants.*)

8. L. Brier and C. Oke entered into partnership on 1st January, 19.., L. Brier bringing in cash £8,000, C. Oke bringing in nothing. The partnership agreement stipulated that Brier was to receive 5 per cent interest on his capital before dividing any profit, which was divisible three-fifths and two-fifths respectively. On 31st December, 19.., they agreed upon a dissolution. A Balance Sheet was prepared on that date, and stood as follows—

Liabilities		£	Assets	£
L. Brier, Capital A/c.		8,000	Book Debts	14,000
J. Harrison, Loan Account . .		4,000	Stock-in-trade . . .	5,700
Sundry Creditors .		4,200	Machinery, etc.	2,400
Balance of Profit & Loss Account .	£10,000		Drawings Account—	
Profit for the year 19... . . .	2,500		L. Brier	5,350
		12,500	C. Oke	1,250
		£28,700		£28,700

L. Brier has not been credited with any interest since the partnership began five years ago. No interest on drawings or undistributed profits is to be taken into account. The Book Debts realized £13,600, the Stock-in-trade £4,900, and the Machinery £2,800. An amount of £500 was also received for Goodwill, which has not appeared in the partnership books. Write up the necessary accounts to give effect to the above statements, assuming that all liabilities are discharged and that the costs of realization, amounting to £300, are also paid by cash. Show the closing of the partners' Capital Accounts. The interest on L. Brier's capital is to be reckoned for each year on the original figure of £8,000, and no interest on interest need be taken into account. (*U.L.C.I.*)

9. The undermentioned errors were discovered in the books of J. Johnson & Co., affecting the year ended 30th June.

(1) April 20. A cheque received from W. Brown for £11 was posted to his credit as 11s.

(2) May 31. A Sale of £26 10s. 0d. was credited correctly, but debited to the Customer's Account as £20 6s. 10d.

(3) June 29. Goods were returned by R. Carr of the invoice value of £27 10s. 0d., and were taken into Stock at £25, but the returns were not entered in the books until the following month.

(4) June 29. The acceptance of Badart Frères to Johnson & Co.'s draft for £220 payable in Paris, and which had been discounted, was dishonoured. The acceptance was worthless, and the bankers debited Johnson & Co.'s account on the 1st July.

Show how the adjusting entries should be made in J. Johnson & Co.'s books at the 30th June. (*Chartered Accountants.*)

10. What, in your opinion, are the advantages and disadvantages of Card Ledgers? Lay down a short set of rules for the control of the cards and the guidance of the book-keeper. (*Chartered Accountants.*)

11. From the following statement make out Trading Account, Profit and Loss Account, and Balance Sheet for the Motor Manufacturing Company, Limited, for the year ending 31st December.

Write off the whole of Preliminary Expenses and depreciate Plant and Machinery, Office Furniture, Patterns and Patents at a uniform rate of $7\frac{1}{2}$ per cent per annum, assuming figures for original cost of these assets.

Add £2,000 to the Sinking Fund for redemption of Debentures and leave the Provision for Bad and Doubtful Debts at 5 per cent on Sundry Debtors. Stock on hand at the above date was taken at £10,087.

	£		£
Nominal Capital 80,000 Shares of £1 each	80,000	Cash at Bank on deposit	12,000
Subscribed Capital 60,000 Shares of £1 each fully called	60,000	Balance to Credit of Profit and Loss (1st Jan.)	890
Calls in Arrear	1,000	Bills Payable	15,500
Freehold Premises	18,000	Sales	122,000
Plant and Machinery	20,000	Purchases	62,100
Interim Dividend paid	2,000	Provision for Bad and Doubtful Debts	2,250
Debentures, 5%	20,000	Preliminary Expenses	400
Stock (1st January)	18,750	Sinking Fund for redemption of Debentures	8,000
Office Furniture	625	N.B. This is represented by Investments to an equal amount, and there is one year's interest on them at $3\frac{1}{2}$% per annum due, but unpaid, at the date of making up these accounts.	
Patterns	6,250		
Patents	3,750		
Goodwill	12,000		
Sundry Debtors	37,500		
,, Creditors	16,800		
Cash in hand	150		
Cash at Bank Current Account	3,000	General Expenses	475
Manufacturing Wages	30,000	Discounts Allowed	2,120
Repairs and Renewals	1,300	,, Received	1,780
Coal	2,225	Directors' Fees	525
Gas and Water	175	Royalties paid	450
Rates, Taxes, and Insurance	1,250	Interest on Bank Deposit	300
Office Salaries	1,000	Bad Debts	150
Travelling Expenses	1,325	Debenture Interest	1,000

12. P and Q are in partnership, and their annual Accounts are made up to 31st March. P died on 1st August following. Q paid the total amount due to P's representatives on 30th September. Their agreement provides that no interest is payable upon capital, but that on the death of a partner (which terminates the partnership) he is to be credited with a proportion of profit to the date of

death, based upon his share for the preceding year, and thereafter with interest upon his capital at 5 per cent per annum. Any other sum to his credit also carries interest at 5 per cent per annum. P's capital, as shown by the last Balance Sheet, was £6,500. P's profit for the preceding year was £750, and was still undrawn at the date of death. Show the separate amounts payable to him for capital, profit, and interest to that date. (*Chartered Accountants.*)

13. On 1st January A admits B into partnership. The agreed value of the assets of A's business is as follows—

	£
Leasehold Premises	2,000
Fittings and Furniture . . .	480
Stock	4,600
Book Debts	800
Cash in hand	50

His liabilities to trade creditors amount to £1,500, and his indebtedness to his Bankers is £2,950. Under the terms of partnership B pays £4,000 to his Bankers, of which £1,000 is credited to A as the purchase money of one-half of the goodwill. Draft the Journal entries for opening the books of the partnership. (*Chartered Accountants.*)

14. On 1st January, the Balance Sheet of Ambrose & Co. was as follows—

	£		£
Sundry Creditors . . .	5,000	Sundry Debtors . . .	6,000
Bills Payable	2,500	*Less* Reserve . . .	100
Mortgage on Land and Buildings . . .	5,000		£5,900
Partners' Capital . . .	23,500	Bills Receivable . . .	600
		Land and Buildings . .	10,000
		Plant and Machinery . .	7,000
		Horses and Vehicles . .	500
		Balance at Bank . . .	2,000
		Stock on hand . . .	8,000
		Work in progress . . .	2,000
	£36,000		£36,000

By an agreement Messrs. Ambrose & Co., on 1st January, agreed to sell the business as a going concern to a company of the same name for the sum of £37,500.

The nominal capital of the company was £50,000, of which 10,000 shares of £1 each had been issued for cash, all paid on allotment.

The purchase consideration of £37,500 was to be satisfied by the allotment of £32,500 shares of £1 each and the payment of £5,000 in cash.

The whole of the assets were included in the sale with the exception of the balance at bank, and the company was to take over the whole of the liabilities with the exception of the mortgage, which was to be discharged by the vendors.

Included in the purchase price is an amount for goodwill.

(*a*) Frame the Journal entries to open the necessary accounts in the company's books upon completion of purchase, giving narrations in each case.

(*b*) Draw a Balance Sheet, showing the company's position at completion of purchase. (*Civil Service.*)

15. The directors of a Limited Liability Company (having an authorized capital of £120,000), issue a prospectus inviting applications for 100,000 shares of £1 each, and stating that 10,000 shares will be issued in addition as fully paid to the Vendor in part payment of purchase money. 2s. 6d. per share is payable on application, 2s. 6d. per share on allotment, 5s. per share three months after allotment, and 10s. per share six months after allotment. The Capital offered was over-subscribed by 10,000 (ten thousand) shares. The amount due on allotment was received in full. The sum of £24,000 was received in respect of the first, and £48,000 in respect of the second call. The purchase money is stated to be £80,000, viz.—

	£
Land and Buildings . .	35,000
Stock and Work in Progress .	15,000
Machinery and Plant . .	20,000
Goodwill	10,000
	£80,000

Make the Journal entries necessary to open the books of the company, and to record the payment of the instalments, stating where the details of calls in arrear should be found. (*Chartered Accountants.*)

16. The Silver Ore Company, Ltd., was formed on 1st April, with an Authorized Capital of £60,000, divided into 30,000 Ordinary Shares of £1 each and 30,000 5 per cent Cumulative Preference Shares of £1 each. The whole of the Ordinary Shares were issued and fully paid, but of the Cumulative Preference Shares 22,000 only were issued, and of these 21,900 were fully paid, but on the remaining 100 shares 15s. only had been paid. From the following Trial Balance prepare Balance Sheet, Trading Account, and Profit and Loss Account on 1st April following.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Ordinary Share Capital				30,000	–	–
Preference Share Capital				21,975	–	–
Balance at Bank	10,550	–	–			
Crushing Plant and Machinery . . .	4,000	–	–			
Cost to date of sinking Mine . . .	2,000	–	–			
Land	20,000	–	–			
Expenses of promotion of Company . .	600	–	–			
Royalties paid	1,000	–	–			
Silver sold (cash)				17,000	–	–
Other minerals sold (including coal used by the Company)				950	–	–
Light Railway, cost	1,200	–	–			
Wages of Miners, etc.	6,900	–	–			
Wagons	500	–	–			
Bank Interest				270	–	–
Advertising	500	–	–			
Carriage paid on Crushing Plant and Machinery	180	–	–			
Erection of Sheds, etc.	1,500	–	–			
Legal Expenses	100	–	–			
Oil	200	–	–			
Repairs to Plant	90	–	–			
Coal bought	300	–	–			
,, used from own Mines . . .	150	–	–			
Office Furniture	150	–	–			
Salaries	2,000	–	–			
Interim preference dividend, paid 2nd Oct., 5 per cent per annum, less tax . .	521	18	2			
Cash in hand	53	1	10			
Directors' Fees	700	–	–			
Investment in Rosario Tin Mines, 2,000 Ordinary Shares, £5 each, £4 paid .	8,000	–	–			
Brokers' charges, etc., on same . . .	100	–	–			
Dividend received thereon				320	–	–
Deposit A/c at Bank, 3 per cent per annum .	8,900	–	–			
Interest received to 31st December . .				120	–	–
Loose Tools	440	–	–			
	£70,635	–	–	£70,635	–	–

Depreciate Plant and Light Railways at 15 per cent per annum. Wagons are valued at £400, and Loose Tools at £300. Promotion Expenses to be charged over a period of three years. Value of Silver on hand, £1,500. On 21st December, the Directors decided to forfeit the 100 shares on which only 15s. has been paid up. *(U.L.C.I.)*

17. The following is a Trial Balance extracted from the books of the Pleasant Hotel Co., Ltd., on the 31st December, from which you are required to prepare Revenue Account and Balance Sheet.

Nominal capital, £25,000, divided into 10,000 5 per cent Cumulative Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each, and 5,000 Deferred Ordinary Shares of £1 each.

	£	s.	d.	£	s.	d.
Issued—						
8,500 5 per cent Cum. Preference Shares fully paid				8,500	-	-
9,000 Ordinary Shares fully paid				9,000	-	-
5,000 Deferred Ordinary Shares issued to Vendors as fully paid				5,000	-	-
Purchases—Beer, Wine, and Spirits, etc.	5,450	-	-			
Provisions	4,580	-	-			
Wages and Salaries	5,230	-	-			
Rates, Taxes, Insurance, Licences, etc.	1,890	-	-			
Laundry	313	-	-			
Takings—Beer, Wines, Spirits, etc.				7,862	-	-
Sales of Food				6,263	-	-
Coals	129	-	-			
Carriage and Porterage	236	-	-			
Sundry Trade Expenses	584	-	-			
Advertising	471	-	-			
Repairs	208	-	-			
Apartments				8,191	-	-
Billiards				212	-	-
Sundry receipts				159	-	-
Discounts received				390	-	-
Transfer Fees				6	-	-
Freehold Land and Buildings	35,000	-	-			
Furniture and Fittings (original cost £5,792)	3,671	-	-			
Stock on hand, 1st January—						
Beer, Wines, Spirits, etc.	2,128	-	-			
Provisions	320	-	-			
Cash in hand	123	12	11			
Parr's Bank, Ltd.				2,212	-	-
Preliminary expenses of formation of Company	864	-	-			
200 4½ per cent 1st Mortgage Debentures of £100 each				20,000	-	-
Debenture Interest paid less tax to 31st October	706	5	-			
Profit and Loss Account, 1st January				1,510	-	-
Sundry Creditors				4,980	-	-
Investments	5,069	-	-			
Goodwill at cost to Company	10,000	-	-			
Interim Dividend on Preference Shares, half-year to 30th June	200	2	1			
Reserve Fund				5,000	-	-
Debtors for apartments not yet entered	152	-	-	152	-	-
Additions to freehold	2,112	-	-			
	£79,437	-	-	£79,437	-	-

Reserve for Debenture Interest, less tax at 1s. 2d. in the £; Wages and Salaries, £128. Stock, 31st December: Beer, Wines, Spirits, etc., £2,520; Provisions, £164.

Depreciate Furniture and Fittings 5 per cent for the year: Land and Buildings nil.

Also make out Profit and Loss Appropriation Account assuming that after the Ordinary shareholders are allowed 10 per cent free of tax, it is suggested the Deferred Ordinary shareholders are to be paid a dividend of 10 per cent free of tax, and the balance carried forward to next year.

(*U.L.C.I.*)

18. THE *WEEKLY BANNER*, LIMITED

TRIAL BALANCE—31ST MARCH

	£	s.	d.	£	s.	d.
Cash Sales (Newspapers)				642	6	2
Agents' Sales				4,397	13	3
Advertisements charged				6,869	18	7
Cash in hand	53	5	5			
Agents' Returns	359	2	4			
Sundry Printing Sales				12	15	3
Advertisers' Prepayments, unexhausted				37	9	–
Copyright	2,000	–	–			
Machinery and Plant, 1st April (cost £13,200)	9,000	–	–			
Freehold Property	4,000	–	–			
Office Furniture (cost £245)	120	–	–			
Bank	3,630	8	–			
Revenue Surplus, 1st April				1,530	7	1
£7,000 Consols $2\frac{1}{2}$ per cent at cost	5,869	–	4			
Reserve Fund A/c				400	–	–
Discount allowed	103	11	1			
Paper, Ink, etc.	2,960	13	8			
Trade Expenses	170	6	10			
Wages	4,845	13	–			
Discount received				379	4	3
Bad Debts	90	17	6			
Interest on Consols (9 months received)				123	11	11
Advertisements in other papers	76	7	4			
Fuel, etc.	157	2	4			
Repairs	206	16	5			
Rent of Branches, Rates, and Taxes	129	8	8			
Correspondence Fees	368	2	4			
Printing and Stationery	108	15	6			
New Plant bought 1st October	400	–	–			
Telephone	78	8	11			
Billposting and Carriage	225	16	9			
Insurance	48	10	–			
Postage and Telegrams	187	12	2			
Travelling Expenses	195	16	10			
Share Capital 4,660 £10 shares £5 called up				23,300	–	–
Bank Interest				125	6	–
Creditors				850	–	10
Agents' Balances	579	1	5			
Subscribers' ,,	38	4	4			
Advertisers' ,,	2,758	12	5			
Sales to Subscribers				84	1	7
Credit Balances				10	19	8
Subscribers' 10 £1 Shares "Yellow Press Co., Ltd," no value	2	–	–			
	£38,763	13	7	£38,763	13	7

Wages owing, £95 16s. 4d.
3 months' interest less Tax @ 1s. 2d. in £ due on Consols.
The Stocks at 31st March are: Paper, Ink, etc., £324 10s.; Fuel, £3 10s.
Telephone, £25 is prepaid.
Provide £150 for estimated costs in Libel Action.
,, £50 for Bad Debts.
Depreciation on Plant 7½ per cent per annum.
,, on Furniture 5 per cent per annum.
Provide 10 per cent for allowances on Advertisers' debts.
Write down Consols to 79½ per cent.
Provide Managers' commission 5 per cent on year's profits before crediting any interest or charging loss on Investments.
Prepare Balance Sheet and Trading Account for year ending 31st March.

(*West Riding of Yorkshire.*)

CHAPTER XV (*contd.*)

COMPANIES

SECTION (D)

REQUIREMENTS OF COMPANIES ACT, 1948, AS TO CONTENTS OF THE ACCOUNTS

The preparation of a Profit and Loss Account and Balance Sheet has been dealt with from the point of view of general layout in Chapter II and the recognized forms illustrated are merely those widely used by the Accountancy profession.

In dealing with the accounts of limited companies, however, the requirements of the Companies Act, 1948, must be borne in mind. Whilst there is no fixed layout required by that Act, the accounts must give certain information.

The Companies Act, 1929, contained provisions requiring certain information to be given in accounts, but they were inadequate. It was possible to produce a Balance Sheet to comply with that Act and yet give no information to the shareholders.

As a result of the investigations and report of the Committee on Company Law Amendment—the Cohen Committee—appointed in 1943, the Companies Act, 1947, was enacted to amend the 1929 Act. The Companies Act, 1948, consolidated the two Acts.

One of the main objects of the 1947 Act was to provide shareholders, creditors and the general public with as much information about a company as possible without prejudicing that company, and to that end the accounts were required to contain considerable detail.

Perhaps the most important of all the provisions affecting the accounts is that contained in Section 149 (1) which states

"*Every Balance Sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every Profit and Loss Account of a company shall give a true and fair view of the profit or loss of a company for the financial year.*"

Every Balance Sheet of a company shall be signed on behalf of the board by two of the directors of the company, or if there is only one director, by that director. There are special provisions for Banking Companies (Section 155).

Details of the information required to be given in the accounts are set out in the 8th Schedule of the 1948 Act. The main requirements are given below—

BALANCE SHEET

(1) There must be summarized—

(*a*) Authorized Share Capital.

(*b*) Issued Share Capital specifying

(i) The amount of redeemable preference shares issued and the *earliest* date on which the company may redeem them.

(ii) The share capital on which interest has been paid out of capital (under Section 65) and the rate of interest unless the information is given in the Profit and Loss Account.

(iii) The amount of any Share Premium Account.

(2) There must be classified under separate headings appropriate to the company's business—

(*a*) Reserves.

(*b*) Provisions.

(*c*) Liabilities—

(i) The general nature of the liabilities must be disclosed.

(ii) If any liability is secured (otherwise than by the operation of law) in the company's assets, the fact must be stated but the assets need not be specified.

(iii) Particulars of debentures redeemed by the company which the company has power to re-issue must be given.

(*d*) Assets—

(i) The general nature of the assets must be disclosed.

(ii) Fixed assets are to be distinguished from current assets.

(iii) The method used to arrive at the amount of the fixed assets under each heading is to be stated.

If the amount of any of the above classes is not material it may be included in another class. If assets of different types are not separable they may be included under the same heading.

(3) The following must be stated under separate headings *so far as they are not written off*—

(*a*) Preliminary expenses.

(*b*) Expenses of issuing shares or debentures.

(*c*) Sums paid by way of commission in respect of shares or debentures.

(*d*) Sums allowed by way of discount in respect of any debentures.

(*e*) Sums allowed by way of discount on any issue of shares.

(4) The following must also be shown under separate headings—

(*a*) *Trade Investments.*

(*b*) *Other Investments*, distinguishing—

(i) Quoted investments which must be divided between those granted a quotation or permission to deal in a recognized Stock Exchange and others.

(ii) Unquoted investments.

The *aggregate market value* of quoted investments is to be stated and also the Stock Exchange value if lower than market value.

(*c*) Goodwill, Patents and Trade Marks (shown as one item) so far as not written off.

(*d*) Aggregate outstanding loans to employees under Section 54, Companies Act, 1948.

(*e*) Aggregate amount of bank loans and overdrafts.

(*f*) The net amount (after deducting Income Tax) recommended for distribution by way of dividend.

(5) If any of the company's debentures are held by a nominee of, or a Trustee for, the company the nominal amount and the amount at which they are stated in the books must be shown.

(6) There must be stated by way of note, or in a statement or report annexed to the Balance Sheet, if not otherwise shown—

(*a*) *Options on Shares*—If any person has an option to subscribe for shares in the company state—

(i) Number, description and amount of the shares.
(ii) The period of the option.
(iii) The price to be paid for the shares.

(*b*) The amount of arrears of Fixed Cumulative Dividends *before* deduction of Income Tax (unless the dividends are tax free when the fact should be stated). Show the period for which dividends are in arrear.

(*c*) Charges on the company's assets to secure the liabilities of another person—particulars should be given including, where practicable, the amount secured.

(*d*) The general nature of other contingent liabilities not provided for including, where practicable, the amount of such liabilities.

(*e*) The amount of contracts for capital expenditure not provided for.

(*f*) If the directors are of opinion that any of the current assets will not realize an amount at least equal to the value stated, in the ordinary course of business, the fact that they are of such opinion.

(*g*) The basis of converting foreign currencies into sterling where the amounts of assets or liabilities affected are material.

(*h*) The basis on which the amount set aside for U.K. Income Tax is computed.

(*i*) Corresponding figures at the end of the previous year.

Methods of Stating Fixed Assets. The normal method of stating fixed assets is to state—

(1) *Aggregate cost* of the assets, or if the assets stand in the books at a valuation

(2) *Aggregate valuation;* and to deduct from the cost or valuation

(3) *Aggregate depreciation* written off.

If the figures before the 1st July, 1948, cannot be obtained without unreasonable expense or delay, the net amount at which the assets stand in the books at that date may be treated as the amount of a valuation at 1st July, 1948.

In practice as few accounts are made up to 1st July, it is usual to treat the amount shown in the last Balance Sheet prior to 1st July, 1948, as the "*Net Book Amount.*"

Exceptions to the normal method: (1) If the normal method would involve unreasonable expense or delay (e.g. where there are numerous small tools which cannot be listed individually).

(2) If replacement is provided by making provision for renewals and charging the cost of replacement against it or by charging the cost of replacement direct to revenue.

In such case state—

(*a*) The means of providing for replacement.

(*b*) The amount of any provision not used.

(3) Investments if the market value is shown. If there is no market value the value as estimated by the directors may be given.

(4) Goodwill, Patents and Trade Marks.

Reserves and Provisions. There must be stated separately (unless the amount is not material)—

(1) Capital Reserves.

(2) Revenue Reserves.

(3) Provisions, other than for the depreciation, renewal or diminution in value of assets.

The Board of Trade has power to dispense with a separate statement of provisions if not required in the public interest and if it would prejudice the company to disclose them. If this power is exercised any heading which includes a provision must indicate the fact.

There must also be disclosed the source of any increase in capital or revenue reserves or provisions or the application of any decrease in reserves. If any provision has been applied to a purpose other than that for which it was set aside such application must be stated.

PROFIT AND LOSS ACCOUNT

There must be stated separately—

(1) *Provisions for depreciation*, renewals or diminution in value of fixed assets.

If depreciation or replacement of fixed assets is provided by some method other than a depreciation charge or provision for renewals the method must be stated. If no depreciation is provided the fact should be stated.

(2) *Interest* on debentures and other fixed loans.

(3) *Taxation*—

(*a*) The charge for U.K. Income Tax (including tax imposed elsewhere to the extent of relief from U.K. Income Tax).

(*b*) The basis of the charge for U.K. Income Tax.

(*c*) The charge for other U.K. tax on profits.

(4) Amounts provided for the redemption of share capital. Amounts provided for the redemption of loans.

(5) *Reserves*—amounts set aside or proposed to be set aside to or withdrawn from reserves.

(6) *Provisions*—amounts set aside to provisions (other than for depreciation, renewals or diminution in value of assets) and amounts withdrawn from provisions and not applied for the purposes thereof. The Board of Trade has power to dispense with this (cf. the power in connexion with the Balance Sheet).

(7) *Investment Income*, distinguishing income from trade investments from income from other investments.

(8) *Aggregate Dividends* paid and proposed; stating whether or not the amount is subject to deduction of income tax.

(9) *Auditors' Remuneration*, if not fixed by the company in general meeting. Expenses are deemed to be remuneration.

(10) *Corresponding Figures* for the previous year.

(11) Any material aspects in which items shown in the Profit and Loss Account are affected by transactions of a sort not usually undertaken by the company or by circumstances of an exceptional or non-recurrent character or by a change in the basis of accounting.

DIRECTORS' EMOLUMENTS

In addition to these requirements Section 196 of the Companies Act, 1948, requires *the accounts* to show—

(1) *The aggregate amount of directors' emoluments*—

(*a*) For services as a director either of the company or of a subsidiary.

(*b*) For other services.

The term "emoluments" includes any sum paid by way of expense allowance in so far as it is charged to U.K. Income Tax, contributions under pension schemes and benefits in kind.

(2) *The aggregate of directors' or past directors' pensions*, distinguishing pensions for—

(*a*) Services as a director of the company or of a subsidiary.

(*b*) Other services.

Pensions receivable under a pension scheme the contributions

to which are substantially adequate for its maintenance. shall not be included.

(3) *The aggregate amount of compensation to directors* or past directors in respect of loss of office, distinguishing

(*a*) Compensation for the loss of office of director.

(*b*) Compensation for the loss of any other office.

In stating any of the above, all sums must be included whether paid by the company or by any other person. In the case of compensation the accounts must distinguish between amounts paid by the company, by a subsidiary or by any other person.

For the purpose of this section a subsidiary includes any company to which a director is *nominated* by the company whether it is a subsidiary or not for other purposes of the Act.

LOANS TO OFFICERS

Section 197 *of the Companies Act*, 1948, requires the accounts to show

(1) Loans made during the company's financial year by the company, or by a subsidiary or under guarantee from the company or a subsidiary—

(*a*) To officers of the company.

(*b*) To any person becoming an officer after the loan was made, including loans repaid during the year.

(2) Loans made before the commencement of the financial year and outstanding at the end of it.

The following are *not* to be included—

(*a*) Loans made in the ordinary course of business of the company or its subsidiary if such business includes the lending of money;

(*b*) Loan by a company or its subsidiary to an *employee* if the loan does not exceed £2,000 and is certified by the directors of the company or its subsidiary to be made in accordance with a practice adopted or about to be adopted with respect to loans to employees; not being in either case a loan made by the company on the guarantee of or on a security from a subsidiary or vice versa.

The Board of Trade is given power to modify the requirements of the Act (except that requiring a true and fair view) as to matters to be stated in the accounts for the purpose of adapting them to the circumstances of a company. The consent of the company's directors is necessary. (Section 149 (4).)

An illustration of a Balance Sheet and Profit and Loss Account drawn up to comply with the foregoing requirements is set out in the following pages.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 19. .

Dr. Comparative Figures for the Previous Year £		£	£	Comparative Figures for the Previous Year £		Cr. £
	To Auditors' Remuneration				By Trading Profits for the Year	
	,, Depreciation of Fixed Assets				,, Income from Investments—	
	,, Interest on Debentures				Trade Investments	
	,, Directors' Emoluments—				Other Investments	
	For Services as Director					
	For Other Services					
	,, Directors' Pensions—					
	For Services as Director					
	For Other Services					
	,, Compensation to Director for Loss of the Office of Director					
	,, Net Profit carried down					
			£			£
	To Income Tax based on the Profits of the Year				By Balance brought forward	
	,, Profits Tax based on the Profits of the Year				,, Net Profit brought down	
	,, Debenture Redemption Reserve					
	,, General Reserve					
	,, Dividend on Preference Shares					
	Less Tax at 9s. in £					
	,, Dividend on Ordinary Shares—					
	Interim					
	Less Tax at 9s. in £					
	Proposed Final					
	Less Tax at 9s. in £					
	,, Balance carried forward					
			£			£

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Corresponding Figures for Previous Year £		£	£
	Authorized Share Capital—		
	........Preference Shares of £1 each		
	........Ordinary Shares of £1 each		
		£	
	Proprietors—		
	Issued Share Capital:		
	........Redeemable Pref. Shares of £1 each, fully paid		
	........Ordinary Shares of £1 each, fully paid		
	(The Preference Shares may be redeemed on or after 1st July, 19..)		
	Capital Reserves		
	Share Premium Account		
	Debenture Redemption Reserve		
	General Reserve		
	Profit and Loss Account		
	Reserve for future Income Tax		
	Long-term Liabilities—		
	........5% Mortgage Debentures (secured)		
	(*Note.* £........ have been redeemed and are available for re-issue)		
	Provisions		
	Current Liabilities—		
	Sundry Trade Creditors		
	Income Tax		
	Profits Tax		
	Bank Overdraft (secured by £........ 5% Mortgage Debentures)		
	Proposed Final Dividend (net)		
	Note. There is a contingent liability for £....on a guarantee given by the company.		£

Corresponding Figures for Previous Year £		Cost £	Aggregate Depn. £		£
	Fixed Assets—				
	Goodwill, Patents, and Trade Marks at cost less amounts written off				
	Freehold Land and Buildings				
	Plant and Machinery				
	Motor Vehicles				
	Furniture and Office Equipment				
	(*Note.* Contracts for extensions to Buildings at a cost of £10,000 have been made but have not been provided for in the accounts)	£	£		
	Trade Investments at cost (market value £........)				
	Current Assets—				
	Stocks and Work in Progress				
	Trade Debtors				
	Deposits and Amounts Paid in Advance				
	Investments quoted on a recognized Stock Exchange (market value £........)				
	Cash in hand				
	Preliminary Expenses.				
	Expenses of Issuing Shares and Debentures				
	On behalf of the Board:				
	.... } *Directors.*				
	....				
	Auditors' Report.				£

QUESTIONS

1. What are the requirements of the Companies Act, 1948, as to "fixed" and "floating" assets?

2. How is stock and work in progress usually valued for Balance Sheet purposes?

3. The Companies Act, 1948, requires that certain assets, in so far as they appear in the books of a company, must be shown quite separately on the Balance Sheet. Enumerate these assets.

4. Say what you know of the legal requirements as to the signing and distribution of the Balance Sheet.

5. In what circumstances may shares be issued at a discount and how is the discount treated (*a*) in the books and (*b*) on the Balance Sheet?

6. Whilst dividends may not be paid out of capital, there is, in fact, one exception to this rule. When is a company allowed to pay interest on its shares out of capital and who sanctions such payments?

EXERCISE XV (D)

1. The Loamshire Manufacturing Co., Ltd., was registered with a Nominal Capital of £70,000, divided into 50,000 Ordinary Shares of £1 each and 20,000 6 per cent Preference Shares of £1 each.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Ordinary Shares				50,000	–	–
Preference Shares				20,000	–	–
Unpaid Calls—Preference Shares	200	–	–			
Freehold Premises	30,000	–	–			
Debtors and Creditors	4,320	–	–	6,728	–	–
Rates, Taxes, and Insurance (Factory, £1,025; Office, £135)	1,160	–	–			
Machinery and Plant (cost less Sales, £31,620)	19,580	–	–			
Rent of Offices sublet				150	–	–
Factory Wages	13,243	–	–			
Office Salaries and Directors' Fees	6,421	–	–			
Purchases	42,345	–	–			
Stock, 1st July, 19..	18,227	–	–			
Sales				76,529	–	–
Discount (Balance)	982	–	–			
Carriage (Inwards, £625; Outwards, £1,216)	1,841	–	–			
Bad Debt Reserve, 1st July, 19..				250	–	–
Investment: 15,000 £1 Shares in Loamshire (Components), Ltd.	15,000	–	–			
Profit and Loss Account (Balance, 1st July, 19..)				4,825	–	–
Dividend received on Investment				500	–	–
Repairs to Premises	145	–	–			
Loose Tools	210	–	–			
Returns (Sales and Purchases)	927	–	–	423	–	–
Cash at Bank	756	–	–			
Heating, Lighting and Fuel (Factory, £3,422; Office, £626)	4,048	–	–			
	£159,405	–	–	£159,405	–	–

From the Trial Balance extracted from the books of the Company as on 30th June, 19.., you are required to prepare Manufacturing and Profit and Loss Accounts for the year ended 30th June, 19.., and a Balance Sheet as on that date.

When preparing the necessary accounts the following matters must be taken into consideration—

(1) Bad Debts Provision is to be adjusted to 5 per cent of the Sundry Debtors at 30th June, 19...

(2) The following valuations were made as on 30th June, 19..: Stock, £21,342; Loose Tools, £195.

(3) Depreciation at 10 per cent is to be provided on Machinery.

(4) Rent due in respect of Office sublet (£50) for Quarter to June has not been received.

(5) Office Salaries £127, and Factory Wages £325, were due as on 30th June, 19.., and had not been paid.

(6) Insurance paid in advance amounted to £64 (Factory, £48; Office, £16).

(R.S.A.)

2. On 31st December, the Trial Balance of John Stephens & Co., Ltd., stood as follows. Prepare a Profit and Loss Account, and Balance Sheet, after making necessary adjustments.

The Company was registered on 15th December, and commenced trading on 1st January. The Capital of the Company is £80,000, divided into 30,000 5 per cent Cumulative Preference Shares of £1 each and 50,000 Ordinary Shares of £1 each. The whole of the Preference Shares and 40,000 of the Ordinary Shares have been issued. The Preference Shares are fully paid and 15s. per share has been called up on the Ordinary Shares. The dividends upon the Preference Shares are payable 1st April and 1st October.

	£	s.	d.		£	s.	d.
Mortgages at 4% per annum	10,000	–	–	Bank	4,493	2	8
Sundry Debtors	9,507	3	9	Interest	408	–	–
Patent Rights, two years expired	3,000	–	–	Interest on Mortgages to 30th June, *less* tax	190	16	8
Royalties	294	8	11	Directors' Fees	350	–	–
Interim Dividend paid on Preference Shares, *less* tax, 1st October	1,073	8	9	Management and Office Salaries	1,530	–	–
Sundry Creditors	7,194	–	9	Transfer Fees	1	12	6
Chief Rents *Dr.*	12	4	8	Wages	20,921	11	8
Rent of Cottages *Cr.*	102	9	6	Formation Expenses	2,397	18	2
Land and Buildings	17,600	–	–	Calls in Arrear	50	–	–
Plant and Machinery	28,896	14	–	Suspense Account *Dr.*	1,316	12	9
Office Furniture	412	10	–	Sales	84,326	10	1
Goodwill	10,526	5	4	Cottages	2,000	–	–
Cash in hand	78	4	6	Trade Expenses	6,772	6	2
				Purchases	49,793	4	10

The Stock at 31st December was £3,197 16s.

Write 2½ per cent off Land and Buildings, 6 per cent off Machinery and Plant, 10 per cent off Goodwill, 25 per cent off Formation Expenses, and 7½ per cent off Office Furniture.

(U.L.C.I.)

3. Messrs. John Bolton & Co., Ltd., was registered as a limited company in 19... The nominal Capital of the Company consists of 75,000 Ordinary Shares of £1 each. The Company is also empowered by its Memorandum of Association to issue 250 Debentures of £100 each, carrying interest at the rate of $4\frac{1}{2}$ per cent per annum.

The books were balanced as on 31st December, on which date the Stock in hand was valued at £11,840.

The Ledger Balances were as follows—

	£
Share Capital (Issued 50,000 Shares of £1 each with 15s. per share called up)	37,500
Calls paid in Advance	125
Mortgage Debentures (Issued 100 Debentures of £100 each)	10,000
Unpaid Calls, Ordinary Shares	250
Stock (1st January)	9,875
Cash in hand	60
Cash at Bankers	3,104
Purchases	32,960
Sales	61,842
Trade Charges	982
Wages	19,462
Salaries	1,291
Travelling Expenses	871
Rates and Taxes	321
Insurance (Fire)	195
Reserve Fund	6,800
Discount (debit balance)	829
Returns from Customers	1,482
Returns to Creditors	3,421
Bad Debts written off	348
Interest paid on Debentures	450
Freehold Land and Buildings	22,280
Machinery and Plant	17,800
Patents	1,200
Sundry Debtors	20,140
Sundry Creditors	11,861
Bad Debts Provision (1st January)	940
Profit and Loss Account (balance 1st January)	3,286
Dividend (paid on Ordinary Shares on 14th February)	1,875

The following adjustments are necessary—

(1) Provide for Depreciation on the Machinery and Plant at the rate of 10 per cent, and on the Patents at the rate of 15 per cent. Assume original cost values.

(2) Make a provision of 5 per cent for Bad and Doubtful Debts.

(3) Carry forward £50 of the amount paid for the Fire Insurance, representing the unexpired period covered by the premiums.

(4) It was decided by the directors not to add to the Reserve Fund, but a bonus of 5 per cent on the net profits for the year was voted for distribution amongst the departmental managers. Provide for this before closing the accounts.

Prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date. (*London Chamber of Commerce.*)

4. Yorkshire Tweed Co., Ltd., Nominal Capital, £10,000, divided into 5,000 6 per cent Cumulative Preference Shares of £1 each, and 5,000 Ordinary Shares of £1 each.

LEDGER BALANCES (31st December)

	£	s.	d.		£	s.	d.
Preference Share Capital, 3,000 Preference Shares fully paid	3,000	–	–	Rates, Gas, and Insurance	203	9	6
Ordinary Share Capital, 4,119 Ordinary Shares fully paid	4,119	–	–	Profit and Loss A/c (1st January) *Dr.*	20	11	2
First Mortgage Debentures, 4%	2,000	–	–	Repairs	176	14	2
Machinery Account (1st January)	4,000	–	–	Debenture Interest to 30th June	40	–	–
Machinery (additions during year)	200	–	–	Trading Account, Stock (1st Jan.)	3,519	4	6
Freehold Mill	3,000	–	–	Dividend A/c	90	–	–
Engines, Boilers, and Shafting (1st Jan.)	500	–	–	Commission A/c	519	11	8
Cards, Bobbins, etc. (1st January)	900	–	–	Bank Charges	32	11	1
Do. (additions during year)	300	–	–	Sales	32,106	14	5
Materials A/c	18,469	15	7	Sales Ledger Balances	6,000	–	9
Dyeing and Finishing	1,216	3	6	Purchase Ledger Balances	4,810	9	10
Carriage	533	1	10	Discount on Sales	511	15	8
Trade Expenses	195	12	4	Bad Debts A/c *Cr.*	116	9	3
Motive Power	691	7	8	Bills Payable	2,220	–	–
				Cash	32	11	9
				Bank *Cr.*	988	6	5
				Discount on Purchases	371	9	9

	£	s.	d.	£	s.	d.
Wages						
Mill	8,437	16	9			
Mechanics and Joiners employed in Repairing	142	1	9	8,579	18	6

Stock, 31st December, £3,699 19s. 7d. Depreciation: write off Machinery $7\frac{1}{2}$ per cent per annum; Engines, Boilers, and Shafting, 10 per cent per annum; Cards, Bobbins, etc., 25 per cent per annum; Additions to be depreciated for half a year: Provide 3 per cent of Debtors' Balances for Discount and £200 for Bad Debts Provision, 5 per cent of Creditors' Balances for Discount. Take into account the following: The Rent of Telephone, £10, has been charged to Trade Expenses, and paid for year ending 30th September next; Insurance, the Fire Policy for £8,000 at a premium of 10s. per cent, expires at Midsummer next; Rates, the District Rate for half-year ending 31st March next, is not yet paid or entered in the books; this rate is 2s. in the £ on the rateable value of the mill, £200; Preference Dividend paid up to 30th June; Managing Director is entitled to 10 per cent bonus on the net profit for the year after charging Debenture Interest. You are required to prepare Trading and Profit and Loss Account and Balance Sheet, assuming any necessary figures.

(*West Riding of Yorkshire.*)

5. Draw up a Trading and a Profit and Loss Account for the year, and Balance Sheet as at 31st December, of the Oil and Gas Motor Co., from the following information—

LEDGER BALANCES (31st December)

	£		£
Land and buildings . .	5,000	Erecting, Fitting, and Carriage	2,400
Machinery and Plant . .	8,800	Repairs, Renewals and Maintenance	800
Patterns	3,300	Coal, Coke, Gas and Water .	450
Stock-in-Trade (1st Jan.) .	9,000	Printing, Advertising, and Stationery	250
Office Furniture and Fittings .	400	Rent, Rates, Taxes, and Insurance . . .	260
Loose Tools (1st January) .	2,500	Travelling and Commission .	1,400
Patents	1,000	General Expenses . .	450
Sundry Debtors . . .	10,500	Discounts and Bad Debts Provision (1st January) .	200
Cash in hand . . .	100	Directors' Fees . . .	100
Profit and Loss Account (1st January) *Dr.* . .	4,270	Interest on Debentures . .	900
Subscribed Capital . .	20,000	Bank Interest and Commission	70
Debentures 6% . . .	15,000	Legal and Accountancy Charges	150
Sundry Creditors . . .	7,000	Royalties Paid . . .	200
L. and N. Bank, Ltd., Overdraft	900		
Sales	40,000		
Purchases	19,000		
Manufacturing Wages . .	11,800		

Write off depreciations from: Land and Buildings 3 per cent, Machinery and Plant 5 per cent, Patterns 10 per cent, Patents 10 per cent, Office Furniture 5 per cent, and make a provision of 6 per cent on the Sundry Debtors for Discounts and Bad Debts. Assume values for original cost of fixed assets.

On 31st December, the Stock was valued at £9,500, and the Loose Tools at £2,300. *(Chartered Accountants.)*

6. A and B, without being in partnership, enter into Joint Ventures outside their respective businesses for the purchase and sale of imported food-stuffs. Each conducts part of the transactions after conference with the other, and they agree to have half-yearly settlements, on the basis of cash transactions bearing interest at 5 per cent.

The following items represent their dealings for the half-year ending 30th June—

Jan. 2. B buys on two months' terms, Currants, £400.
,, 3. A pays Dock Dues on same, £10.
,, 30. A buys for Cash, tinned Salmon, £180.
Feb. 1. B sells Currants and receives Cash, £480, less 2½ per cent.
,, 2. B pays for Currants, less one month's Interest at 5 per cent per annum.
Mar. 7. A sells for Cash, Salmon, £100, less 1¼ per cent discount.
,, 12. A sells on Credit, Salmon, £40.
,, 17. A buys Almonds, £200.
April 1. B buys Figs, £100.
,, 2. B pays Freight on Figs, £5.
,, 6. B pays Railway Dues on Salmon, £4.
,, 18. A sells Almonds, £80, less 2½ per cent.
,, 21. A sells Almonds, £35.
,, 21. A receives Cash for Almonds, £78.
May 1. B sells whole consignment of Figs for Cash, £95.
,, 3. A sells for Cash balance of Salmon, £30.
,, 15. A sells for Cash balance of Almonds, £90.

Prepare Accounts showing how matters stand between A and B on 30th June.
(Incorporated Accountants.)

7. How would you recommend the organizing of a book-keeping system of a manufacturer's business, so that the Personal Account Ledgers could be separately agreed? *(Chartered Accountants.)*

8. What is the percentage rate of Gross Profit on—

(1) The *sale price* of goods purchased for the sum of £1,000, and sold for £1,333 6s. 8d.?

(2) The *purchase price of* goods bought for £783 6s. and sold for £979 2s. 6d.? *(Chartered Accountants.)*

9. Describe the system of book-keeping most suitable to one of the following businesses: *Manufacturer*, who pays for his materials by Bill at end of each month, pays for all items of the nature of expenses by cheque weekly; occasionally hands over to his creditor a customer's acceptance. Or *Retailer*, whose sales are almost entirely for cash; he pays all his accounts at end of following month; all cash goes through Bank; he wishes to ascertain in one set of Books the gross results of his trading, separating the goods into three departments. *(West Riding of Yorkshire.)*

10. From the following particulars compile the accounts for the year ended 31st December, to be submitted to the Annual Meeting of the members of a Golf Club.

	£	*s.*	*d.*
Entrance Fees and Subscriptions received on account of last year (these were estimated at £9 9s.)	10	10	–
Subsciptions received	1,050	–	–
Entrance Fees received	73	10	–
Entrance Fees and Subscriptions received on account of next year	52	10	–
Locker Rents received	35	–	–
Green Fees received	120	–	–
Expenses, including Rent, for current year (of these £800 have been paid)	900	–	–
Liabilities of last year, paid this year (these were estimated at £70)	60	–	–
Subscriptions owing for current year £21, taken as	12	12	–
Stock (House Account)	150	–	–
Capital Expenditure, including Lease, last year	1,000	–	–
,, ,, this year	200	–	–
,, ,, written off	250	–	–
Profit on House Account, including Refreshments, after providing for the Staff	50	–	–
Cash in hand	124	18	–
Renewals paid	91	3	–
Interest paid	20	–	–
Loan on security of Lease	500	–	–
Surplus from last Account	494	–	–
Fee to Treasurer's Clerk for current year, not paid	20	–	–

(Chartered Accountants.)

11. The following was the Balance Sheet of a firm upon dissolution of partnership, "A" retiring, "B" continuing the business. The partners' shares as to Capital and Profits were A, three-fourths; B, one-fourth.

	£		£
Capital A	9,000	Freehold	12,000
Capital B	3,000	Debtors	3,000
Loan from A	2,000	Cash	1,000
Creditors	1,800	Stock	1,000
Reserve	1,200		
	£17,000		£17,000

A agreed to buy the Freehold for £10,000. The Stock was taken over by B at 10 per cent discount. The debtors realized 86 per cent of their value. The costs of the liquidation exclusive of the above deficiencies were £470. What did each partner receive? Show Cash Account, Liquidation Account, and Partners' Accounts. (*Chartered Accountants.*)

12. Explain the difference between a Trading Account and a Profit and Loss Account, and state in which account you would place the following items, giving your reasons—

Purchases,	Carriage and Freight,	Depreciation,
Debenture Interest,	Allowances,	Bad Debts,
Wages,	Commission,	Advertising,
Sales,	Stocks on hand,	Returns,
Discounts,	Fuel,	Packages.
Directors' Fees,		

(*Chartered Accountants.*)

13. The Speedy Motor Cab Co., Ltd., was registered with a Nominal Capital of £30,000, divided into 10,000 Ordinary Shares of £1 each, and 20,000 6 per cent Preference Shares of £1 each.

From the following "Trial Balance" prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date—

TRIAL BALANCE

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital Account				10,000	–	–
Preference Share do.				18,267	–	–
Calls in arrear on Preference Shares	8	10	–			
Stock in hand (1st January)	1,305	8	7			
Cash in hand	28	9	3			
Bank Overdraft				603	5	4
Cab Earnings				18,697	19	5
Salaries	1,187	10	3			
Tyres	4,906	3	11			
Insurance	1,521	8	–			
General Expenses	278	9	–			
Plant and Machinery (cost £2,090)	1,451	9	–			
Fixtures and Fittings (cost £1,945)	1,126	17	–			
Taxicabs (cost £37,600)	28,000	–	–			
Debtors and Creditors	89	17	3	710	2	–
Provision for Renewals (1st January)				500	–	–
Profit and Loss Account (Balance, 1st January)	748	3	5			
Rent of Taximeters	465	10	–			
Licences	312	8	–			
Petrol (less Payments by Drivers)	874	8	6			
Training Drivers	103	5	4			
Washing and Cleaning Cabs, etc.	2,606	8	2			
Repairs	1,810	12	5			
Rent, Rates, and Taxes	953	8	7			
Lighting	189	5	4			
Directors' Fees	250	–	–			
Preliminary Expenses	458	9	6			
Legal Expenses and Audit Fee	102	5	3			
	£48,778	6	9	£48,778	6	9

Before preparing the Accounts, the following adjustments are necessary—

Charge Depreciation on Plant and Machinery, and Fixtures and Fittings, at 10 per cent per annum.

Charge Depreciation on Taxicabs at 5 per cent per annum.

Provide for Renewals, £500.

„ „ Rates owing, £18 7s. 6d.

„ „ Insurance paid in advance, £170 1s. 6d.

The takings of the cabs on 30th and 31st December amounted to £171 8s. 3d., but were not paid in by the Drivers until 1st January.

Write off one-third of the Preliminary Expenses Account.

The value of the Stock in hand as on 31st December was agreed at £1,486 10s. 9d. (*R.S.A.*)

14. A limited Company has a nominal Capital of £250,000, in 25,000 shares of £10 each. Of these, 4,000 shares were issued to the vendors as fully paid, 8,000 shares were subscribed for by the public, and during the first year £5 per share was called up. 2,000 shares were issued, as fully paid, to persons other than the vendors, in payment for property purchased. On the 8,000 shares subscribed for by the public there had been paid at the end of the first year—

On 6,000 shares, the full amount called.
„ 1,250 shares, £4 per share.
„ 500 shares, £3 per share.
„ 250 shares, £2 per share.

The directors forfeited the 750 shares on which less than £4 had been paid.

You are required to submit Journal and Cash Book entries recording the capital transactions of the company, and to set out the capital as it should appear in the Company's Balance Sheet at the end of the first year.

(*London Chamber of Commerce.*)

15. The nominal Capital of the Richmond Co., Ltd., consists of 100,000 shares of £1 each. The whole of these shares were issued and were fully called up in four equal instalments of 5s. each.

On 12th February, after due notice, the directors passed a resolution forfeiting the 1,000 shares held by Mr. W. A. Richardson, the final instalment due upon his holding not having been paid.

On 1st May, the 1,000 shares referred to above were issued, as fully paid, to Captain Hayward, who paid £500 for them.

Give the entries necessary to record these transactions in the Company's books. (*London Chamber of Commerce.*)

16. The Blakewell Manufacturing Co., Ltd., issued debentures to the extent of £10,000 at 5 per cent discount. The underwriting costs, etc., amounted to 2½ per cent on the issue. Show how these transactions would appear in the books of the Company and in the Company's Balance Sheet, assuming that neither the discount on the issue nor the underwriting costs, etc., had been written off on the date on which the Balance Sheet was prepared.

(*London Chamber of Commerce.*)

17. The Golden Hill Co., Ltd., has a balance of £18,000 to the credit of Profit and Loss Account on 31st December last. On 1st February, it was resolved to appropriate the amount as follows—

£3,600 to Reserve Fund.

Dividend of 10 per cent (*less* Income Tax, 5s. in the £1) on 10,000 Preference Shares of £5 each fully paid.

Dividend of 15 per cent (free of Income Tax) on 10,000 Ordinary Shares of £5 each fully paid, and carry the balance forward.

You are requested to make out (1) Profit and Loss Appropriation Account, (2) Dividend Account, (3) Income Tax Account, and (4) Reserve Fund Account.

18. Explain the method of calculating and apportioning profits or losses prior to incorporation. A company acquired profits up to 30th June amounting to £8,000; the date of the incorporation of the company being given as 30th April; whereas the company took over the assets and liabilities of the concern as on 1st January. Apply the rules of apportionment and determine what part of the profit must be capitalized and what part taken to "credit" of Profit and Loss Account. The turnover for the six months ended 30th June was £24,000; half of which amount was earned up to the date of incorporation.

19. The nominal Capital of Messrs. Brownson & Co., Ltd., consists of 8,000 shares of £1 each, and 15s. per share has been called up, all of which have been issued, but 80 shares were forfeited on the 1st February. On the 31st March, the Ledger Balances were as follows—

	£		£
Capital paid up	5,940	Profit and Loss A/c *Cr.*	100
Bills Payable	1,000	Interim Dividend	750
Sundry Creditors	2,079	Premises A/c	2,000
Bad Debts	220	Salaries	1,200
,, Provision	120	Sundry Debtors	3,172
Cash	95	Directors' Fees	200
Stock (1st April)	2,056	Furniture and Fittings	412
Reserve Account	500	Wages	5,802
Bank *Cr.*	900	Sales	11,568
Horses, Carts, etc.	478	Purchases	1,525
Preliminary Expenses	500	Carriage	250
Discounts *Dr.*	126	Travelling Expenses	607
Bills Receivable	1,488	Rates, etc., for the half-year ended 30th Sept. last	50
Forfeited Shares A/c	10		
Plant and Machinery	1,286		
,, ,, —original cost £1,610			

The Stock at the date of abstracting the above balances amounted to £2,456; Wages (unpaid), £50; Interest on Bank overdraft, £36. Bring up the Bad Debts Provision to 5 per cent on Sundry Debtors. Also provide £60 for Depreciation of Plant and Machinery.

On the 1st April, it was decided to spread the Preliminary Expenses over a period of six years; the amount originally was £600.

After making the necessary adjustments, prepare Trading and Profit and Loss Accounts and Balance Sheet.

20. A charitable society submits the following figures, from which you are asked to prepare such accounts as you think desirable for submission to its members.

CASH ACCOUNT FOR YEAR TO 31ST DECEMBER, 19..

	£		£
Subscriptions	2,070	Bank Overdraft, b/f	17
Subscriptions (in advance)	10	Wages	1,862
Legacy for Building	150	Rates, Heat, and Light	205
Income-tax Reclaim	17	Committee Expenses	10
Investments Realized (Cost £1,000)	1,206	Secretary's Expenses	27
Donations for Building	600	Building—	
Dividends	42	Cost of Premises	1,698
		Furnishing	270
		Bank Balance, c/f	6
	£4,095		£4,095

Secretary's expenses outstanding amount to £20, and a balance of £120 is due on the building contract. It is desired to write off 10 per cent of the expenditure on furnishing. No legacies have been received in previous years, and only Cash Accounts have been prepared in the past. (*Chartered Institute of Secretaries.*)

21. Y, Z & Co., Ltd., is a business having two factories, one in London, where the head office is, and the other in Birmingham. Separate sets of books are kept at each place, and each branch prepares its own Profit and Loss Account; all fixed assets, however, are recorded in the London books. When closing the Accounts the balance of the Profit and Loss Account in the Birmingham books is closed by transfer to the credit of London Current Account.

The following were the balances standing on the two sets of books after the closing off of the respective Profit and Loss Accounts as on 31st October, 1948.

You are required to prepare the company's Balance Sheet as on 31st October, 1948.

Also set out the Journal entries in both sets of books to record the year's depreciation (say, £850) on the plant and machinery at Birmingham. (Such depreciation has already been written off before arriving at the figure given in the list of balances.)

BALANCES

		London	Birmingham
		£	£
Ordinary Shares, 240,000 of 10s. each (authorized £200,000)		120,000	
7 per cent Preference Shares, 30,000 of £1 each (authorized £100,000)		30,000	
Calls in arrear on Preference Shares		140	
6 per cent Debentures		40,000	
Discount on Debentures		6,000	
Trade Creditors		4,388	3,194
Expenses accrued		1,947	422
Expenses paid in advance		309	146
Birmingham Current Account (*Dr.* Balance)	£	12,906	
London Current Account (*Cr.*)	12,906		
Less Cash in Transit	2,000		
			10,906
Sundry Debtors		12,345	9,615
Bad Debt Provisions		400	250
Staff Pensions Fund		5,340	
Staff Pensions Fund Investments		5,340	
Profit and Loss Account to 31/10/47 (*Cr.* Balance)		8,157	
Dividends paid		9,300	
Profit and Loss for year to 31/10/48 (*Cr.* Balance)		7,334	4,218
Cash and Bank Balances		8,757	2,717
Freehold Premises		80,000	
Plant and Machinery		61,750	
Vans, Horses, and Lorries		3,547	
Stock, 31/10/48		29,172	6,512
Share Premiums		12,000	
		£459,132	£37,980

(*London Chamber of Commerce.*)

22. A Limited Company purchased machinery at a cost of £2,000 on 1st January, 1945. At the same time, the Directors decided to take out a Policy of Assurance for that amount in order to provide moneys wherewith to replace the asset at a later date. The annual premium was £200, and the first was paid on 1st January, 1945. It was also decided to maintain the Policy at the surrender value in the books of the Company. The surrender value was £50, £180, and £320 at the end of each of the first three years respectively. You are asked to show the Machinery Account, Policy Account, and Asset Redemption Account, duly balanced, as they would appear in the Company's books for the first three years. (*U.L.C.I.*)

23. A merchant has bought goods due as under—

£400 due 73 days before 30th June.
£250 ,, 37 ,, ,, ,,
£400 ,, on 30th June.
£700 ,, 18 days after 30th June.

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

24. (*a*) Enumerate the main matters that must be dealt with in the "Deed of Partnership," and give four ways in practice as regards the treatment of Goodwill when a new partner is to be admitted into an existing firm.

(*b*) Give views in regard to "Goodwill" that prove it to be of value to business men, and not a fictitious asset as is so frequently suggested.

25. Messrs. Cooper & Son keep their Ledgers on the self-balancing system. From the following particulars, prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as at 31st March—

	£	*s.*	*d.*
Debtors' Balances as at 1st March	19,846	10	5
Total Credit Sales for month	18,755	11	6
,, Cash received from Customers for month	12,974	3	10
,, Discount allowed to Customers for month	598	15	8
Bills accepted by Customers during month	4,651	6	9
Goods returned by Customers during month	474	8	7
Acceptances dishonoured by Customers during month	326	17	5
Transfers during month from *Contra* A/cs in the Bought Ledger	156	4	11
Items charged to Customers, during the month, from Petty Cash Book	26	13	4

26. G. Sykes and R. Simpson trade as the Simplex Manufacturing Co. The following was the Trial Balance of their books for the twelve months ending 31st December. Prepare Trading Account, Profit and Loss Account, and Balance Sheet.

Make the following Provisions and Reserves. Profits or Losses to be shared equally. Interest at 5 per cent on Partners' Capital Accounts, ignoring Drawings. Transfer £75 from Purchases Account, and £115 from Wages Account to Additions to Plant; Depreciate Plant Account 5 per cent off balance and 25 per cent off additions; Depreciate Furniture and Fittings Account 5 per cent; add to Leasehold Premises Redemption Account $2\frac{1}{2}$ per cent interest on balance and Annual Instalment of £37 10s.; provide for Bad and Doubtful Debts, 5 per cent on Debtors.

Before dividing profits, J. Smith, the Works Manager, is to receive a Bonus

on the net profits of 2 per cent up to £2,500, and 1½ per cent on any profits over that amount.

TRIAL BALANCE—31st December

	Dr. £	s.	d.	Cr. £	s.	d.
G. Sykes, Capital A/c, 1st Jan.				8,500	–	–
,, Drawings A/c	1,000	–	–			
R. Simpson, Capital A/c, 1st Jan.				6,444	1	–
,, Drawings A/c	750	–	–			
Leasehold Premises	3,270	10	6			
,, ,, Redemption A/c				675	–	–
Plant, Machinery, and Tools, 1st Jan.	6,012	11	8			
Plant, Machinery, and Tools, Additions during the year	252	17	4			
Furniture, Fittings, and Fixtures	873	14	6			
Cash A/c	35	17	2			
Lloyds Bank, Ltd., Current A/c	1,014	16	7			
Bills Receivable A/c	1,173	16	2			
,, Payable A/c				4,573	19	10
Sales				38,350	2	6
Purchases	22,753	14	8			
Wages A/c, Producers	7,642	12	9			
,, ,, Non-producers	1,013	10	6			
Discounts received and allowed	1,975	14	6	1,162	8	10
Carriage and Freight	457	16	9			
Sundry Trade Expenses	282	12	8			
Ground Rent, Rates, and Taxes	472	16	9			
Coal, Gas, and Water, Works A/c	522	19	7			
,, ,, ,, Office A/c	89	17	1			
Bank Charges	54	13	9			
Creditors				5,003	16	2
Debtors	9,872	12	6			
Bad Debt A/c (Provision)				152	12	9
Repairs to Plant	63	18	10			
Stock A/c, 1st Jan	5,274	16	10			
	£64,862	1	1	£64,862	1	1

Stock, 31st December, £6,378 12s. 6d. (*Union of Educational Institutions.*)

27. Define an "Account Current," and make out such an account for North & Co. in respect of the following transactions with East & Co.—

Sept. 16. Goods sold to East & Co., £100, due 1st Oct.
Oct. 1. Received cash from East & Co., £45.
,, 21. Goods bought of East & Co., £250, due 1st Dec.
Nov. 1. Paid to East & Co., cash, £165.
Dec. 1. Paid to East & Co., cash, £150.
,, 5. Goods bought of East & Co., £250, due 1st Jan.
,, 10. Goods bought of East & Co., £110, due 1st Jan.
Jan. 1. Paid cash to East & Co., £300.
,, 9. Goods sold to East & Co., £10, due 1st Feb.

The account to be made up to 1st February. Interest to be at 6 per cent, which may be calculated by months instead of days. (*Chartered Accountants.*)

28. Mr. Arthur Wilson, finding his business increasing, arranged to take into partnership Mr. Henry Day.

Wilson's assets and liabilities were as follows—

Assets	£	s.	d.	*Assets*	£	s.	d.
Freehold Factory . .	2,500	–	–	Balance at Bank . .	120	18	10
Machinery . . .	1,200	–	–	Office Furniture .	72	3	4
Stock	721	4	6	Sundry Expenses paid in advance . . .	42	–	–
Book Debts . . .	1,452	8	9	Loan to J. Smith . .	100	–	–
Bills Receivable . .	212	17	3				
Cash in Hand . .	8	4	1				
				Liabilities			
Mortgage on Factory .	1,000	–	–	Bills Payable . .	416	15	–
Sundry Creditors . .	826	5	7				

The difference between his assets and liabilities is his capital.

Henry Day is to pay Wilson the sum of £1,000 as premium and to put in the sum of £1,500 as his capital in cash.

Wilson puts the amount of the premium into the business as further capital.

Make out a Balance Sheet showing the position of the firm after these arrangements have been carried out. (*Civil Service*)

29. You are required to make the necessary Journal entries to adjust the following matters—

(*a*) An investigation of the accounts of a defaulting cashier discloses that £318 4s. 6d. has been received by him from the firm's debtors, and £10 12s. 4d. for cash sales, and that he had paid £6 8s. 4d. for goods, £66 5s. 4d. to Creditors (net), discount deducted having been £1 13s. 9d. No entries of these items had been made in the books. Petty cash expenses book shows that there is £5 3s. 6d. due to him.

(*b*) An amount of £95 standing to the debit of A. Brown you find is a payment for 2 horses and a cart.

(*c*) Goods sold of the value of £100 are packed, and the invoice for them sent to the purchasers. Stock-taking intervenes, and the parcel of goods is not dispatched, but is included in the stock figure. This is, however, discovered before the year's accounts are finally drafted.

(*d*) A discounted acceptance for £100 realizes £95 in cash. You find that the customer from whom the acceptance was received has been credited with £95. (*Civil Service.*)

CHAPTER XV (*contd.*)

COMPANIES

SECTION (E)

DEBENTURES—TYPES AND REDEMPTION

A debenture is an acknowledgment of a debt by a company usually creating a charge on the undertaking or property of the company, bearing a fixed rate of interest, and either repayable within a fixed term of years or irredeemable during the existence of the company.

The issue of a debenture or series of debentures is the most usual way in which a company borrows money for extending its business, apart from increasing its capital.

TYPES OF DEBENTURE

A debenture may be one of many types according to security, permanence, or priority.

1. As to Security

(*a*) **Fixed Charge**, i.e. on specific assets constituting a mortgage to trustees with a deed of trust. In this case the company may not dispose of any part of the assets so charged or do anything which would jeopardise the security without first obtaining the sanction of the debenture holders through the trustee.

(*b*) **Floating Charge,** i.e. a charge on the undertaking as a whole. This does not prevent the company from dealing with the assets in the normal course of business.

(*c*) **Naked Debenture.** In this case the holders are given no security at all. Naturally, investors are not over-anxious to lend money without security.

In the past, under much more stable financial conditions, however, companies of undoubted standing have been able to borrow by this means.

2. As to Permanence

(*a*) **Redeemable Debentures.** Debentures which are redeemable—

(i) by payment to the holders, either at par or at a premium, at the expiry of a specified period or at the company's option at any time within a specified period;

(ii) by purchase in the open market;

(iii) by annual drawings.

(*b*) **Irredeemable Debentures.** As indicated by the name, no undertaking is given at the time of issue, as to redemption, in which case they are repayable only in the event of a winding-up or some serious default on the part of the company.

3. As to Priority

First or second charge.

Debentures are also classified as—

1. **Debentures to Bearer,** that is, debentures payable to bearer, with or without power for the bearer to have them placed on a register or to have them at any time withdrawn from it. These are transferable by simple delivery.

2. **Registered Debentures,** that is, debentures payable to a registered holder with or without interest coupons payable to bearer. Any transfer of these must be registered with the company.

Difference between Debentures and Debenture Stock. Debenture Stock is borrowed money consolidated into one sum for the sake of convenience. Debentures may be compared with shares in that they are transferable only in their entirety; debenture stock may be transferable in multiples of a pound or fractions of a pound.

Debenture Interest is the interest usually payable yearly or half-yearly on the money borrowed.

Difference between a Shareholder and a Debenture Holder. A shareholder is an *inside* person, a partner in the company; a debenture holder is an *outside* person, merely a loan creditor. A shareholder shares in the profits, getting a *dividend* on the money he has invested; a debenture holder receives *interest* on the money he has lent, charged as a working expense, even if there is not any profit.

This last point of difference is important and explains why debenture interest is charged to Profit and Loss Account whilst dividends are debited to the Appropriation Account.

Generally speaking, a company wishing to raise fairly large sums of money, has therefore two main alternatives: (1) the issue of new shares, and (2) the issue of debentures. The reason for choosing the second of these methods is appreciated by a consideration of the main points of difference—

1. The security behind debentures is in itself an attraction and enables them to be issued at a lower rate of interest than preference shares.

2. Unlike shares, other than redeemable preference shares, the company can redeem them when it no longer requires the money. The alternative, a reduction of capital, is a costly business requiring the sanction of the High Court.

3. A lower annual rate of interest may be provided for by issuing

debentures at a discount. This may be offset by having to redeem at par unless they can be purchased from the market at a lower figure.

4. Redeemable preference shares are at a disadvantage compared with debentures, as the Companies Act, 1948, makes compulsory the raising and maintaining of a Capital Redemption Reserve Fund when they are repaid out of profits. This means that the profits so set aside are permanently capitalized.

It has already been stated that interest on debentures must be paid irrespective of whether or not there are sufficient profits, and this is obviously a disadvantage to the company. In fact, it may even lead to the appointment of a receiver for the debenture holders. One method of overcoming this difficulty is by the issue of income debentures still providing the holder with security but upon which interest is payable only if there are sufficient profits.

REDEMPTION OF DEBENTURES

There are four ways by which a company provides for the repayment of its debentures, and they are as follows—

1. Out of Profits.
2. Out of Capital.
3. By means of a Sinking Fund.
4. By means of an Insurance Policy.

Before proceeding to give the examples of the redemption of debentures, it must be emphasized that companies are empowered, under Section 90 of the Companies Act, 1948, to re-issue redeemable debentures, but that the Balance Sheet of the company must give particulars of any redeemed debentures which may be re-issued.

(1) Out of Profits

Example 1. A limited company has a balance of £6,300 at the credit of its Profit and Loss Account. Instead of declaring a dividend, it is resolved to utilize the profits to repay its £6,000 debentures now redeemable at a premium of 5 per cent. Make the necessary entries in the Journal and Cash Book.

Dr. CASH BOOK *Cr.*

			£
		By Debenture Holders .	6,300

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	Dr.	Cr.
	£	£
Profit and Loss A/c	6,300	
To Appropriation A/c		6,300
Transfer of balance.		
Appropriation A/c	300	
To Premium on Repayment of Debentures.		300
Premium on Repayment now provided.		
Debentures A/c	6,000	
Premium on Repayment of Debentures . .	300	
To Debenture Holders A/c . . .		6,300
Transfer of balances.		
Appropriation A/c	6,000	
To General Reserve A/c. . . .		6,000
Transfer of amount of profits equal to Debentures repaid.		

Example 2. A limited company has power under its Articles of Association to apply its profits in the purchase of its Debenture Stock in the open market and to cancel it. The amount standing to the credit of Profit and Loss Account is £8,000, and to the credit of Debenture Stock Account, £40,000. The company's bank balance is £20,000. The directors decide to expend £8,000 in purchasing and cancelling further Debenture Stock, the market price of which, inclusive of all charges, is 92 per cent. Show the Ledger Account affected.

Dr. CASH BOOK **Cr.**

	£		£
To Balance . .	20,000	By Debenture Stock—£8,695 13s. @ 92% . .	8,000

Dr. DEBENTURE STOCK ACCOUNT **Cr.**

	£	s.	d.		£	s.	d.
To Cash—£8,695 13s. @ 92% .	8,000	–	–	By Balance . .	40,000	–	–
,, Transfer to General Reserve A/c (profit on purchase) .	695	13	–				
,, Balance c/d .	31,304	7	–				
	£40,000	–	–		£40,000	–	–
				By Balance b/d .	31,304	7	–

Dr. APPROPRIATION OF PROFIT ACCOUNT Cr.

		£			£
	To Transfer to General Reserve A/c	8,000		By Profit and Loss A/c . . .	8,000

Dr. CAPITAL RESERVE ACCOUNT Cr.

					£	s.	d.
				By Appropriation A/c . .	8,000	–	–
				,, Debenture Stock A/c .	695	13	–
					£8,695	13	–

The cash having, in each of the two examples, been paid away on account of debentures, it is not available to pay the profits by way of dividend, but the amount would be available for dividend if the company was in funds later, or for a bonus distribution in shares.

Treatment of Interest on own Debentures. (1) Where no Sinking Fund exists, the interest will be credited either as a separate item to Profit and Loss Account or to Debenture Interest Account, the net balance of this latter being transferred to the debit of Profit and Loss Account in the ordinary way.

(2) Where a Sinking Fund is being built up, if the debentures have been acquired either out of the proceeds of sale of Sinking Fund Investments or out of profit to the Sinking Fund, then, as such debentures will form part of the Sinking Fund Investments, the interest will be credited to the Fund exactly as though the investments were outside investments. The debit for such interest will be to Profit and Loss Account.

(2) Out of Capital

Example. A limited company issued £15,000 debentures at a discount of 5 per cent, repayable *at par* by annual drawings of £3,000. Make the necessary entries in the company's books for the first year.

Dr. CASH BOOK Cr.

			Year		£
			1	By Debentures Redeemed A/c .	3,000

LEDGER

DEBENTURES ACCOUNT

Dr.			Cr.		
Year		£	Year		£
1	To Transfer from Debentures Redeemed A/c .	3,000	1	By Cash . . .	14,250
	,, Balance c/d . .	12,000		,, Discount . .	750
		£15,000			£15,000
			2	By Balance b/d . .	12,000

DEBENTURES DISCOUNT ACCOUNT

Dr.			Cr.		
Year		£	Year		£
1	To Debentures A/c .	750	1	By Profit and Loss Appropriation A/c . .	250
				,, Balance c/d . .	500
		£750			£750

DEBENTURES REDEEMED ACCOUNT

Dr.			Cr.		
Year		£	Year		£
1	To Cash . . .	3,000	1	By Transfer to Debentures A/c . .	3,000

(3) By means of a Sinking Fund

Example. A limited company issued £6,000 debentures at par, repayable in 6 years at a premium of 5 per cent. It decided to provide for redemption by means of a Sinking Fund at 4 per cent compound interest. Show subsidiary book entries and the Ledger Accounts affected, and explain the procedure at the end of the period.

The annual instalment required to produce £6,300 in 6 years at 4 per cent is (Table B, page 137) £6,300 × ·150761 = £949·794 = £949 15s. 11d.

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Year		Dr. £ s. d.	Cr. £ s. d.
1	Profit and Loss Appropriation A/c . .	949 15 11	
	To Debenture Redemption Fund A/c .		949 15 11
	Annual Sinking Fund instalment.		

and so on for subsequent years.

CASH BOOK

Dr.			Cr.		
Year		£ s. d.	Year		£ s. d.
2	To Debenture Redemption Fund A/c (interest on investments) . .	37 19 10	1	By Debenture Redemption Fund Investment A/c . .	949 15 11
			2	,, Debenture Redemption Fund Investment A/c (instalment plus interest)	987 15 9

and similar entries for succeeding years.

LEDGER

Dr. DEBENTURE REDEMPTION FUND ACCOUNT Cr.

Year		£ s. d.	Year		£ s. d.
1	To Amount c/d . .	949 15 11	1	By Appropr ation A/c .	949 15 11
2	To Amount c/d . .	1,937 11 8	2	By Amount b/d . .	949 15 11
				,, Cash (Interest, 4%)	37 19 10
				,, Appropriation A/c .	949 15 11
		£1,937 11 8			£1,937 11 8
3	To Amount c/d . .	2,964 17 8	3	By Amount b/d . .	1,937 11 8
				,, Cash (Interest) .	77 10 1
				,, Appropriation A/c .	949 15 11
		£2,964 17 8			£2,964 17 8
4	To Amount c/d . .	4,033 5 6	4	By Amount b/d . .	2,964 17 8
				,, Cash (Interest) .	118 11 11
				,, Appropriation A/c .	949 15 11
		£4,033 5 6			£4,033 5 6
5	To Amount c/d . .	5,144 8 –	5	By Amount b/d . .	4,033 5 6
				,, Cash (Interest) .	161 6 7
				,, Appropriation A/c .	949 15 11
		£5,144 8 –			£5,144 8 –
6	To Transfer to Debentures A/c (Premium on Repayment) .	300 – –	6	By Amount b/d . .	5,144 8 –
	,, Transfer to General Reserve A/c . .	6,000 – –		,, Cash (Interest) .	205 15 6
				,, Appropriation A/c . (Adjustment of 7d.)	949 16 6
		£6,300 – –			£6,300 – –

Dr. DEBENTURE REDEMPTION FUND INVESTMENT ACCOUNT[1] Cr.

Year		£ s. d.	Year		£ s. d.
1	To Cash	949 15 11	1	By Amount c/d . .	949 15 11
2	To Amount b/d . .	949 15 11	2	By Amount c/d . .	1,937 11 8
	,, Cash (Instalment plus Interest) .	987 15 9			
		£1,937 11 8			£1,937 11 8
3	To Amount b/d . .	1,937 11 8	3	By Amount c/d . .	2,964 17 8
	,, Cash . . .	1,027 6 –			
		£2,964 17 8			£2,964 17 8
4	To Amount b/d . .	2,964 17 8	4	By Amount c/d . .	4,033 5 6
	,, Cash . . .	1,068 7 10			
		£4,033 5 6			£4,033 5 6
5	To Amount b/d . .	4,033 5 6	5	By Amount c/d . .	5,144 8 –
	,, Cash . . .	1,111 2 6			
		£5,144 8 –			£5,144 8 –
6	To Amount b/d . .	5,144 8 –	6	By Cash	6,300 – –
	,, Cash . . .	1,155 12 –			
		£6,300 – –			£6,300 – –

[1] This might naturally be in *several* investments instead of in *one* as it is here stated.

At the end of the period the procedure will be as follows—

1. The investments will be realized, and the proceeds debited to Cash and credited to the Investment Account, thus closing it.

2. Of the accumulated profits as in the Debenture Redemption Fund Account, £300 (Premium on Repayment) will be transferred to the credit of the Debentures Account; and £6,000 (Nominal value of the Debentures repaid) will be transferred to the credit of the General Reserve Account, and will be available as profit, though, of course, not in cash.

3. The debentures will be paid off out of the proceeds of the Investments, Cash being credited and the Debentures Account debited. The latter account will thus be closed.

(4) By means of an Insurance Policy

This is very similar to the Sinking Fund method but, unlike that, there is no interest receivable during the period. That being so, the premiums payable will be less than the amount secured under the policy divided by the number of premiums to be paid. On the other hand it will be higher than the sum set aside by the investment method because the rate of interest upon which the yearly premiums will be fixed is lower than that obtained on gilt-edge securities.

In addition, the securities can be realized at any time, subject to any market depreciation or appreciation in value, whereas if the policy were surrendered there would be an appreciable loss.

Example. Ushant, Ltd., has made an issue of 10,000 5 per cent debentures on 1st January, 19.., the terms of which include that the company must provide a Sinking Fund for redemption on 31st December, 19.. (three years later). The directors decide to take out an insurance policy to provide the necessary cash, the annual premium being £3,141 1s. 5d., on which the return is 3 per cent per annum compound interest. Show Ledger Accounts.

Dr. 5% DEBENTURES ACCOUNT *Cr.*

			£				£
Year 3 (end)	To Cash . . .		10,000	Year 1 (commencement)	By Cash . . .		10,000

Dr. CASH (*re* REDEMPTION) *Cr.*

			£				£
Year 3 (end)	To Debenture Redemption Policy Account .		10,000	Year 3 (end)	By 5% Debentures Account . . .		10,000

Dr. DEBENTURE[1] REDEMPTION ACCOUNT Cr.

		£	s.	d.			£	s.	d.
					Year 1 (end)	By Profit and Loss Appropriation Account . .	3,141	1	5
						,, Debenture Redemption Policy Account— Interest at 3% p.a. on £3,141 1s. 5d. for one year . .	94	4	8
							3,235	6	1
					2 (end)	,, Profit and Loss Appropriation Account . .	3,141	1	5
						,, Debenture Redemption Policy Account— Interest at 3% p.a. on £6,376 7s. 6d. for one year .	191	5	10
Year 3 (end)	To General Reserve	10,000	-	-			6,567	13	4
					3 (end)	,, Profi and Loss Appropriation Account . .	3,141	1	5
						,, Debenture Redemption Policy Account— Interest at 3% p.a. on £9,708 14s. 9d. for one year .	291	5	3
	£	10,000	-	-		£	10,000	-	-

Dr. DEBENTURE[1] REDEMPTION POLICY ACCOUNT Cr.

		£	s.	d.			£	s.	d.
Year 1 (commencement)	To Cash— Premium .	3,141	1	5					
(end)	,, Debenture Redemption Account— Interest .	94	4	8					
		3,235	6	1					
Year 2 (commencement)	To Cash— Premium .	3,141	1	5					
(end)	,, Debenture Redemption Account— Interest .	191	5	10					
		6,567	13	4					
Year 3 (commencement)	To Cash— Premium .	3,141	1	5	Year 3 (end)	By Cash . .	10,000	-	-
(end)	,, Debenture Redemption Account— Interest .	291	5	3					
	£	10,000	-	-		£	10,000	-	-

[1] These accounts will be balanced off yearly in the usual way.

It will be seen that the entries in this illustration follow closely those required for the raising of a fund for the replacement of a wasting asset. The main point of difference lies in the fact that the balance of the Debenture Redemption Account upon the repayment of the liability becomes a general reserve, whereas the Asset Redemption Account must be used to write down the asset.

CONVERSION INTO NEW DEBENTURES

When a company finds it necessary to borrow money at a time when interest rates are high, it is obviously the duty of the directors to relieve the company of this heavy burden, if and when, at some later date, rates become lower. Assuming that the company has power to redeem during the life of the debentures, the method adopted will be to redeem them out of the proceeds of a further issue carrying a lower rate of interest. The book-keeping entries in this case are merely the entries appertaining to (*a*) the redemption of debentures followed by those required for (*b*) an issue of debentures.

CONVERSION OF DEBENTURES INTO SHARES

It will be remembered that whilst debentures may be issued at a discount, shares can be so issued only in special circumstances. (Section 57, Companies Act, 1948.)

The courts will not permit the evasion of this restriction by the conversion into an equal number of fully-paid shares, of debentures previously issued at a discount. But even when debentures have not become repayable, they may be converted into the same number of shares (representing the nominal value of the debentures) if they are partly paid to the extent of the cash originally paid for the debentures, or even into fully-paid shares on a basis that their number is in the same proportion that the cash paid on the original debentures bore to their nominal value.

Example. A company issued £10,000 debentures at 95. On what basis can they be converted into shares?

1. If they have become due for repayment, 10,000 shares of £1 each fully paid may be issued in exchange.

2. 9,500 shares of £1 each fully paid (i.e. 19 shares of £1 each fully paid for £20 debentures) or 10,000 shares of £1 each 19s. paid (i.e. one share of £1 each, 19s. paid for every £1 debenture) if such debentures have not reached maturity.

The same principles will apply where power is given to the debenture holder to require his debenture to be converted into shares. Any "profit" on conversion of debentures into shares may be credited to Share Premium Account or utilized to write off the debenture discount outstanding.

A premium on debentures, except in a company operating under the Double Account System, is legally available for distribution as dividends unless prohibited by the Articles. Although this is the case the practice is not considered sound finance.

DEBENTURES ISSUED TO A BANK

The entries in connexion with the issue of debentures have already been considered in a previous section in so far as they are issued in the normal way, and irrespective of the type of debenture. There is one further type which it is essential to deal with for examination purposes. A company does not always need to raise money on debentures if it has a good sound financial foundation, as it is then a comparatively simple matter to obtain a bank overdraft. Many of these overdrafts are granted without any security whatever, but where security is called for by the banker, debentures often serve this purpose. Such debentures are then said to be issued as **Collateral Security** for the overdraft or loan. A collateral security is one which can be realized by the party in possession in the event of the original loan not being repaid at the due date or other breach of agreement between the parties. On repayment of the borrowed money the collateral security is at once released.

Section 90 of the Companies Act, 1948, provides that debentures issued as security for a bank overdraft shall not be considered to have been redeemed by reason only of the account of the company having ceased to be in debit whilst debentures still remain deposited.

No entry whatsoever is made in the financial books in respect of such debentures, their existence being recorded simply by a note on the Balance Sheet under the liability secured.

Example. A. Co., Ltd., obtains an overdraft from its bankers of £10,000, giving as collateral security £15,000 debentures. The Balance Sheet will appear as follows—

BALANCE SHEET

AS AT ....

	£
Current Liabilities—	
Bank Overdraft, N. Bank, Ltd.	10,000
Secured by an issue of £15,000 debentures.	

QUESTIONS

1. In what different ways may debentures be redeemed?
2. Explain briefly the procedure at the end of the period when debentures are redeemed by means of a Sinking Fund.
3. Can a company issue perpetual debentures? Has a company power to reissue redeemed debentures?
4. Explain the terms "Trust Deed," "Trustee for Debenture Holders," "Floating Charge." What are the particular advantages of the last-named?

5. What four special rights has a debenture holder? Which "right" is most frequently exercised, and why?

6. What do you understand by an Income Debenture?

7. What is the difference between debentures and debenture stock?

8. What is the relationship of a debenture holder to the company?

9. Briefly outline the advantages and disadvantages from the company's point of view of issuing debentures?

10. May debentures be converted into shares? If so under what conditions?

11. When are debentures issued as collateral security and what entries are made in the books and on the Balance Sheet?

EXERCISE XV (E)

1. A company borrowed £18,000 on debentures, at a discount of 5 per cent, repayable *at par* at the end of ten years, and decides to provide for redemption by means of an annual Sinking Fund at 5 per cent compound interest. Show the subsidiary book entries, the Ledger Account affected, and explain the procedure at the end of the period.

The annual instalment required to produce £1 in 10 years at 5 per cent is £·079504.

2. A limited company has a balance of £10,500 at the credit of its Profit and Loss Account, and instead of declaring a dividend, it resolves to use the profits to pay off £10,000 debentures, now due, at a premium of 5 per cent. Make the necessary Journal and Cash Book entries and show the Ledger Accounts affected.

3. A limited company issued £15,000 debentures at a discount of 5 per cent, repayable *at par* by annual drawings of £1,875. Show the Cash Book and the Ledger Accounts affected.

4. A limited company has power under its Articles of Association to apply its profits to the purchase of its debenture stock in the open market and to cancel it. The amount standing to the credit of Profit and Loss is £8,500, and to the credit of Debenture Stock Account £32,000. The company's bank balance is £18,000, and the directors decide to expend £8,500 of it in purchasing and cancelling further stock, the market price of which, inclusive of all charges, is 93 per cent. Show the Ledger Accounts, etc., affected.

5. The following balances stood in the books of a company on 31st December, 1948—

	£
5 per cent Mortgage Debentures	50,000
Debenture Redemption Fund	52 100
Debenture Redemption Fund Investments—	
£26,400 4 per cent Funding Loan	25,000
£28,000 3½ per cent War Stock	27,100

On 28th February, 1949, the investments were sold (the Funding Loan at 110 and the War Stock at 99), and the debentures paid off at 102 together with accrued interest. The interest has been paid up to 31st December, 1948.

Write up the Ledger Accounts concerned, ignoring brokers' charges.

Calculate income tax on the debenture interest at 5s. in £. (*R.S.A.*)

6. Some years ago Z, Ltd., made an issue of 5 per cent debentures, repayable by periodical drawings or by purchase in the market. Appropriations to a Debenture Redemption Reserve have been made year by year. Interest is payable on 31st March and 30th September, and had been paid up to date. On 31st March, 1948, the debentures in issue amounted to £57,000 and the Redemption Reserve stood at £38,500. On 1st May, 1948, Z, Ltd., purchased in the market for cancellation £2,000 of the debentures at a cost of £1,943 and on 1st December a further £2,000 at a cost of £1,871. Interest on the debentures remaining in

issue was paid on 30th September, 1948, and 31st March, 1949, and on the latter date £3,750 was transferred to the credit of the Debenture Redemption Reserve.

Set out the Ledger Accounts recording the above transactions, excluding the Cash Book and ignoring income tax. (*R.S.A.*)

7. A limited company in 1934 made an issue of 2,000 7 per cent debentures of £100 each. Interest was payable half-yearly on 30th June and 31st December, and the issue was repayable at par on 31st December, 1954. The company reserved the right, however, on giving due notice, to redeem the issue on any interest date after 31st December, 1946, at 105 per cent. On 31st December, 1947, there was a Debenture Redemption Fund amounting to £108,500, represented by investments which had cost that amount. The directors gave notice to repay the issue on 30th June, 1948, in accordance with the terms of issue, at the same time offering the holders the right, instead of taking cash, to receive a £100 4½ per cent debenture and £7 cash for each existing debenture.

Holders of 1,400 debentures accepted this offer and the remainder were paid out in cash. The cash was provided by the company partly out of current funds and partly by the sale of a portion of the investments which realized £58,700 (book value £51,000). Set out the Ledger Accounts affected by these transactions.

The Cash Book entries are not required and interest payments are to be ignored. (*R.S.A.*)

8. The Lucifer Electrical Co., Ltd., has a nominal capital of £100,000: one-half in £1 Ordinary Shares and the remainder in 6 per cent Preference Shares of £1 each. There have been issued 40,000 Ordinary Shares (which have been fully paid up) and 20,000 Preference Shares, upon which 5s. per share has been called up and paid. The directors have also issued £10,000 of 4 per cent Redeemable Debentures, of which, at the date of the previous balancing, £2,000 with interest had been paid off.

At 31st December, the following, among other balances, appeared in the books—

	£		£
Wages and Salaries	1,100	Machinery and Plant	14,100
Reserve A/c	2,500	Purchases	21,000
Undivided Profits	4,000	Office Furniture	100
Stationery	60	Goodwill A/c	15,000
Sales	61,500	Bills Receivable	2,537
Discounts A/c, *Dr.*	1,260	Carriage	700
Stock, 1st January	15,400	Horses, Carts, etc.	500
Cash in Bank	2,950	Book Debts	18,500
Value of Lease	5,500	Loose Tools	900
Advertising	45	Creditors	11,200
Productive Wages	31,800	Rent, Rates, etc.	320
Stable Expenses	160	Repairs and Replacements	43
Accountancy Fees	105	Travelling Expenses	120

The finished Stock at 31st December amounts to £15,000 and the Stock in process, £2,500.

Of the productive Wages, £100 has been expended in addition to Office Fixtures and Fittings, and £150 in new Tools, and adjustment of these items will be necessary.

You are required to prepare a Trading and Profit and Loss Account and Balance Sheet, after having (1) made provision for one year's unpaid interest on Debentures and Preference Shares, (2) carried 5 per cent of the present value to a Debenture Redemption Account, (3) written 5 per cent off the present value of the Lease, (4) written off an ascertained Bad Debt of £200, and created a Bad Debt Provision of 2 per cent on the balance of the debts. You will further provide £1,000 for Directors' Fees, ½ per cent Commission on the sales to be

allowed to travellers, and for additional Purchases of £400, none of which are yet paid. Depreciation must be made, assuming any necessary figures—

On finished Stock, 5 per cent; on Stock in process, 12½ per cent; on Machinery and Plant, 7½ per cent; on Loose Tools, 7½ per cent. (*Incorporated Accountants.*)

9. The Eldorado Cigarette Co., Ltd., was registered on 1st April, with a nominal Capital of £30,000, divided into 25,000 Ordinary Shares of £1 each, and 500 Preference Shares of £10 each; 22,179 Ordinary Shares were allotted (upon application), called up and fully paid, with the exception of £32 ("calls in arrear"), while the whole of the Preference Shares were allotted and paid up before 31st March next.

On 31st March, in addition to the above transactions, the following were the Ledger Accounts balances of the company. You are required, after making the adjustments stated below, to prepare a Trading Account and a Profit and Loss Account for the year ended 31st March, and a Balance Sheet as on that date. The stock-in-hand as on 31st March, was valued at £16,455.

LEDGER ACCOUNTS' BALANCES

	£		£
Cash in hand	129	Purchases—	
Rent	620	Tobacco	74,029
Gas and Electric Light	182	Sundries	2,300
Rates and Taxes	203	Boxes	3,053
Licence and Insurance	209	Purchases Returns—	
Trade Expenses	506	Tobacco	1,745
Electric Power	63	Sundries	162
Interest and Discount (*Dr.* balance)	3,275	Boxes	47
Wages (Manufacturing)	7,517	Bad Debts (written off)	247
Salaries	1,587	General Expenses	93
Carriage	896	Plant and Machinery	3,420
Travellers' Salaries, Commission and Expenses	1,479	Fixtures and Fittings	1,160
Sales—		Advertising and Samples	904
Tobacco	25,693	Profit and Loss A/c (*Dr.* balance)	479
Cigarettes	61,460	Legal Expenses	53
Shorts and Sundries	7,565	Audit Fee	105
Sales Returns—		Stock	17,532
Tobacco	427	Bad Debts Provision	542
Cigarettes	1,036	Sundry Creditors	22,970
Shorts and Sundries	193	,, Debtors	24,360
Printing and postage	347	Cash at Bankers	927

ADJUSTMENTS

	£
Insurance paid in advance	49
Rates ,, ,,	32
Owing for Salaries	40
,, Electric Light	34
,, Electric Power	18
Depreciation Plant and Machinery	10%
,, Fixtures and Fittings	7½%

Provide for Bad and Doubtful Debts, 2½ per cent on Sundry Debtors.

(*Chartered Accountants.*)

10. Upon which side of the Ledger would you expect to find the Balances of the following accounts? Give your reasons: Bad Debts, Cash, Goodwill, Reserve Fund. (*West Riding of Yorkshire.*)

11. What is the difference, as ordinarily understood, between gross profit and net profit? State some of the advantages to be derived from arriving periodically at the gross profit of a business? (*Chartered Accountants.*)

12. Rule a form of Petty Cash Book which you would recommend for a merchant's or manufacturer's business, where all payments not exceeding £2 are made out of the Petty Cash which is kept by a junior clerk, and explain the method of dealing with it. (*Chartered Accountants.*)

13. On 2nd November, William Robinson & Co., Ltd., drew a bill on Henry Jones at three months for £500 in respect of goods supplied. On 6th November the company received the bill from Jones duly accepted, payable at the County Bank, Ltd., and on 5th December discounted the bill with its bankers at 5 per cent per annum. Make the entries in respect of these transactions in the books of the company. In the company's Balance Sheet at 31st December, how, if at all, will the bill appear? (*Chartered Accountants.*)

14. Explain, as applied to the Balance Sheet of a joint stock company, the following—

(*a*) Capital Authorized.
(*b*) Calls in Arrear.
(*c*) Mortgage Debentures.
(*d*) Preliminary Expenses.

On which side of the Balance Sheet would they appear? (*U.L.C.I.*)

15. The books of the British Manufacturing Co., Ltd., at the end of its first year's business on 31st December, showed the following balances, the Stock-in-trade at that date amounting to £6,000.

	£		£
Share Capital	40,000	Discounts *Dr.*	200
5% Debenture Stock	10,000	Preliminary Expenses	500
Interest on Debenture Stock		Purchases	49,000
paid *less tax*	475	Sales	70,000
Buildings (cost £27,000)	20,000	Wages	15,000
Machinery (cost £32,500)	25,000	Cash in hand	3,525
Office and General Repairs	1,500	Debtors	6,000
Directors' Fees	300	Creditors	1,500

Write off Preliminary Expenses, £500; Depreciation on Buildings, £400; and on Machinery, £1,000. Prepare a Trading and Profit and Loss Account for the year ended 31st December. (*Chartered Accountants.*)

16. A company made an issue of £100,000 Debenture Stock, secured by trust deed on all the fixed and floating Assets of the company. Of this amount £50,000 was subscribed at a premium of £2 per cent, £30,000 was subscribed at par, and £20,000 was issued to the company's bankers by way of collateral security for a loan of £15,000. Give the entries which should appear in the company's Balance Sheet to record these transactions. (*Chartered Accountants.*)

17. In the books of the Isle of Wight Tube Co., Ltd., you find that the shareholders have been paid £4,000 during the current year, representing interest on their holdings at the rate of 5 per cent. A similar sum has been debited to the Construction Account as "Interest paid during Construction of Works." Under what circumstances, if any, is this a proper proceeding? Supposing the line to be completed by the following 31st December, and similar transactions to take place during this year, would your answer be affected in any way? (*Chartered Accountants.*)

18. Premiums on shares of a company having been carried to a Reserve Fund, a portion in a bad year's trading is transferred to Profit and Loss Account in order to pay its Preference Dividend. Would you see any objection to this course? (*Chartered Accountants.*)

19. On 1st July the British Aerodrom Co., Ltd., issued a prospectus offering to the public 50,000 Ordinary Shares of the company of £1 each, 2s. 6d. per share payable on application and 7s. 6d. on allotment; the balance to be called up as required. The list was closed on 4th July, and on the 5th the directors met to allot the shares, when it was found that applications had been received for 61,000 shares, as follows—

John Jones, London	10,000 shares
D. O. George, Flint	1,000 ,,
Sir William Flyon, Dublin	5,000 ,,
Henry Wing, Dover	5,000 ,,
Sundry Persons	40,000 ,,

The shares were allotted as follows: John Jones, 5,000; D. O. George, none; Sir W. Flyon, 1,000; H. Wing, 4,000; and Sundry Persons, 40,000. The amounts payable on allotment were all received on or before the 15th July. Rule a suitable form of Applications and Allotments Book and make the entries therein necessary to record the above transactions. (*Chartered Accountants.*)

20. The undermentioned persons applied for, in the order named, and were, with one exception, duly allotted shares of £1 each offered for subscription by Soleil D'or, Limited. The shares were payable as to 5s. per share on application, 5s. per share on allotment, and the balance as and when determined by resolution of the directors. The distinctive numbers allocated to the shares in question ran from 1 onwards. The application list was closed on 1st July, and all allotment moneys were paid on or before 15th July.

Make the entries recording the application for, and allotment of, the following shares in the Application and Allotments Book of the company.

	Shares Applied for	Shares Allotted
Robert Rheid, 16 Finsbury Circus, E.C., Wool Broker	5,000	5,000
George Dewey, 261 Low Pavement, Nottingham, Lace Manufacturer	1,000	500
Robert Richmond, Eastwood, Essex, Rose Grower .	2,000	2,000
Florence Veitch, The Manse, Loamtown, Spinster .	100	nil

(*R.S.A.*)

21. The following is the Balance Sheet of the Northern Iron Co., Ltd., as at 30th September, 19..—

	£	£
Assets—		
Freehold Land, at cost		20,000
Buildings, at cost	39,000	
Additions, at cost	2,000	
	41,000	
Depreciation	1,000	
(*subject to Mortgage, per contra*)		40,000
		60,000
Fixed Plant and Machinery, value as taken over by the Company	140,000	
Additions at cost	17,000	
	157,000	
Depreciation	7,000	
		150,000
Loose Plant, Tools, and Patterns, as valued by the Company's Managers		50,000
Stock-in-trade, as taken and valued by the Company's Managers		80,000
Sundry Trade Debtors	110,000	
Less Provision for Bad Debts and Discounts .	5,500	
		104,500
Goodwill		40,000
Preliminary and Formation Expenses . . .		10,500
		£495,000

Capital and Liabilities—		
Nominal Capital, £500,000 divided into 200,000 6% Cumulative Preference Shares of £1 each, and 300,000 Ordinary Shares of £1 each.		
Paid-up Capital—		
200,000 Ordinary Shares of £1 each . . .	200,000	
100,000 6% Cumulative Preference Shares of £1 each	100,000	
		300,000
First Mortgage Debentures		75,000
Mortgage on Freehold Land and Buildings, *contra* .		20,000
County Bank for Overdraft		5,000
Sundry Trade Creditors		60,000
Reserve Fund		20,000
Profit and Loss Account		15,000
		£495,000

Remodel above Balance Sheet in conformity with regulations contained in the Companies Act, 1948. (*Chartered Accountants.*)

CHAPTER XV (*contd.*)

COMPANIES

Section (F)

Issue and Redemption of Redeemable Preference Shares

The important restrictions as to both the issue and the redemption of a class of share which, like a debenture, could be redeemed and re-issued are contained in Section 58 of the Companies Act, 1948. The provisions, in so far as they affect the accounts, are as follows—

1. The issue must be authorized by the Articles.
2. No such shares may be redeemed except (*a*) out of profits otherwise available for dividend, or (*b*) out of the proceeds of a fresh issue made for the purposes of the redemption.
3. They must be fully paid before they can be redeemed.
4. Where any such shares are redeemed otherwise than out of the proceeds of a new issue, there must be transferred from the profits to a Capital Redemption Reserve Fund a sum equal to the nominal amount of the shares redeemed.
5. The premium, if any, payable on redemption must have been provided for out of the profits of the company or out of Share Premium Account before the shares are redeemed.
6. A statement must appear in the Balance Sheet, specifying what part of the issued capital consists of such shares and the earliest date on which the company has power to redeem the shares.
7. A new issue may be made to provide the money for redemption as if the shares to be redeemed had not been issued, and accordingly the share capital shall not for the purposes of stamp duty be deemed to be increased provided the old shares are redeemed within one month of the new issue.
8. The redemption of Preference Shares does not reduce the company's authorized capital.
9. The Capital Redemption Reserve Fund may be applied in paying up unissued shares to be issued to members of the company as fully paid bonus shares.

On page 668 is a statement of the book-keeping entries arising on the redemption of shares, and students are advised to study the formulae it contains.

The two outstanding points of importance to the examinee, the committing to memory of which is important, are—

1. If redeemed out of profits a Capital Redemption Reserve

FORMULAE FOR BOOK-KEEPING ENTRIES REQUIRED ON THE REDEMPTION OF REDEEMABLE PREFERENCE SHARES

At Par	At a Premium	At a Discount	By an Issue of Shares for the Purpose
DEBIT Redeemable Preference Share Capital A/c. CREDIT Bank A/c. Cash to holders of............... shares redeemed.	DEBIT Redeemable Preference Share Capital A/c. CREDIT Preference Capital Redemption A/c. For amount of shares being redeemed.	DEBIT Redeemable Preference Share Capital A/c. CREDIT Preference Capital Redemption A/c. For nominal amount of shares being redeemed.	DEBIT Redeemable Preference Share Capital A/c. CREDIT (a) Cash. CREDIT (b) Preference Capital Redemption A/c. For amount of shares being redeemed. (a) If redeemed at par. (b) If redeemed at a premium.
DEBIT Profit and Loss Appropriation A/c. CREDIT Capital Redemption Reserve Fund. Transfer to Reserve of amount redeemed.	DEBIT Profit and Loss Appropriation A/c. CREDIT Preference Capital Redemption A/c (a). CREDIT Capital Redemption Reserve Fund (b). For transfer of premium to (a) and transfer of amount redeemed to (b).	DEBIT Profit and Loss Appropriation A/c. CREDIT Capital Redemption Reserve Fund. For nominal amount of shares redeemed.	DEBIT Profit and Loss Appropriation A/c. CREDIT Preference Capital Redemption A/c. Transfer of premium (if any).
NOTE The normal entries relating to an issue of shares will also arise when shares are redeemed by an issue of shares.	DEBIT Preference Capital Redemption A/c. CREDIT Bank A/c. Cash to holders of............... shares redeemed.	DEBIT Preference Capital Redemption A/c. CREDIT Bank A/c. Cash to holders of.................... shares redeemed. DEBIT Preference Capital Redemption A/c. CREDIT Discount on Redemption of Shares A/c.	DEBIT (a) Redeemable Preference Share Capital A/c. DEBIT (b) Preference Capital Redemption A/c. CREDIT Bank A/c. Cash to holders of.............. shares redeemed. (a) If redeemed at par. (b) If redeemed at a premium.

Fund must be created in a sum equal to the nominal amount of the shares redeemed.

2. If the shares are being redeemed at a premium, a transfer must be made from the profits or from an existing share premium account of an amount equal to the premium on redemption.

Example 1. In 1945 the Turnover Trading Co., Ltd., made a public issue of 8 per cent Redeemable Preference Shares of £1 each, repayable at 22s. on the company giving six months' notice. 124,500 of these shares were subscribed and fully paid.

With a view to the redemption of the above in April, 1949, the company, having at the time a General Reserve Fund of £90,000, offered for subscription at par 75,000 6 per cent Preference Shares of £1 each, payable in full on application. 61,320 of these were taken up and allotted. Immediately afterwards the company redeemed the whole of the 8 per cent shares in accordance with the terms of the issue.

Dr. 8% REDEEMABLE PREFERENCE SHARES ACCOUNT *Cr.*

		£			£
1949 Apr.	To Sundry Members .	£124,500	1949 Jan. 1	By Balance . . .	£124,500

Dr SUNDRY MEMBERS' ACCOUNT *Cr.*

		£			£
1949 Apr.	To Cash	136,950	1949 Apr.	By 8% Redeemable Preference Shares Account .	124,500
				,, Premium on Redemption of Shares Account	12,450
		£136,950			£136,950

Dr. PREMIUM ON REDEMPTION OF SHARES ACCOUNT *Cr.*

		£			£
1949 Apr.	To Sundry Members .	£12,450	1949 Apr.	By General Reserve Fund .	£12,450

Dr. GENERAL RESERVE FUND *Cr.*

		£			£
1949 Apr.	To Premium on Redemption of Shares Account	12,450	1949 Jan. 1	By Balance . . .	90,000
	,, Capital Redemption Reserve Fund . .	63,180			
	,, Balance . . .	14,370			
		£90,000			£90,000

Dr. CAPITAL REDEMPTION RESERVE FUND *Cr.*

					£
			1949 Apr.	By General Reserve Fund .	£63,180

Dr. PREFERENCE SHARE APPLICATION AND ALLOTMENT ACCOUNT Cr.

1949 Apr.	To Preference Share Capital A/c.	£ £61,320	1949 Apr.	By Cash	£ £61,320

Dr. 6% PREFERENCE SHARES CAPITAL ACCOUNT Cr.

			1949 Apr.	By Application and Allotment A/c	£ £61,320

Example 2. 10,000 6 per cent Redeemable Preference Shares of £1 each fully paid in A, Ltd., are outstanding on 1st January, 194–. This being the date of redemption, the shares are redeemed at 22s. each. 4,000 Ordinary Shares of £1 each are issued at 21s. for cash for the purpose of redemption. Show Ledger entries, assuming that the balance of Profit and Loss Appropriation Account is £24,600.

Dr. 6% REDEEMABLE PREFERENCE SHARES ACCOUNT Cr.

194. Jan. 1	To Sundry Members	£ 10,000	194. Jan. 1	By Balance	£ 10,000

Dr. SUNDRY MEMBERS ACCOUNT Cr.

194. Jan. 1	To Cash	£ 11,000	194. Jan. 1	By 6% Redeemable Preference Shares Account	£ 10,000
				„ Premium on Redemption of Shares Account	1,000
		£11,000			£11,000

Dr. PREMIUM ON REDEMPTION OF SHARES ACCOUNT Cr.

194. Jan. 1	To Sundry Members.	£ 1,000	194. Jan. 1	By Profit and Loss Appropriation Account	£ 800
				„ Share Premium Account	200

Dr. ORDINARY SHARE CAPITAL ACCOUNT Cr.

			194. Jan. 1	By Cash	£ 4,000

Dr. ORDINARY SHARE PREMIUM ACCOUNT Cr.

194. Jan. 1	To Premium on Redemption of Shares A/c	£ 200	194. Jan. 1	By Cash	£ 20(

Dr. CAPITAL REDEMPTION RESERVE FUND *Cr.*

			194. Jan. 1	By Profit and Loss Appropriation Account	£ 6,000

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *Cr.*

194. Jan. 1	To Premium on Redemption of Shares Account	£ 800	194. Jan. 1	By Balance	£ 24,600
	,, Capital Redemption Reserve Fund	6,000			
	,, Balance	17,800			
		£24,600			£24,600

Example 3. A company issued 25,000 7 per cent Redeemable Preference Shares of £1 each at par. At 30th June, 194., the shares are to be redeemed at 22s. a share, and for the purpose of assisting the redemption 15,000 Ordinary Shares of £1 each were issued at par. On the above date 1,000 of the Redeemable Preference Shares had been forfeited for non-payment of the last call of 5s., 800 of which had been reissued as fully paid for 12s. a share. The balance of Profit and Loss Account was £12,100 and the General Reserve £3,000. On the same day as the redemption took place a Bonus Share Dividend was declared of £12,500.

Show the Ledger balances as on 30th June, 194., and the Ledger entries relating to the redemption of the Preference Shares, the issue of the Ordinary Shares, and the Bonus Shares.

Dr. 7% REDEEMABLE PREFERENCE SHARE CAPITAL ACCOUNT *Cr.*

	To Sundry Members.		£ 24,800		*By Balance*	*b/d*	£ 24,800

Dr. ORDINARY SHARE CAPITAL ACCOUNT *Cr.*

	To Balance	c/d	£ 27,500		By Cash		£ *15,000*
					,, **Bonus Share Dividend Account**		**12,500**
			£27,500				£27,500
					By Balance	b/d	27,500

Dr. FORFEITED SHARES ACCOUNT *Cr.*

	To Reserve		£ 150		*By Balance*	*b/d*	£ 150

Dr. PREMIUM ON SHARES REISSUED ACCOUNT Cr.

		By Balance . . .	b/d	£ 280

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr.

	£			£
To Sundry Members—Premium . .	2,480	*By Balance* . . .	*b/d*	12,100
,, Capital Redemption Reserve Fund .	9,620			
	£12,100			£12,100

Dr. SUNDRY MEMBERS Cr.

	£			£
To Cash . . .	27,280	By 7% Redeemable Preference Shares Capital Account .		24,800
		,, Profit and Loss Appropriation Account — Premium on Redemption .		2,480
	£27,280			£27,280

Dr. CAPITAL REDEMPTION RESERVE FUND Cr.

	£			£
To Bonus Share Dividend Account .	**9,800**	By Profit and Loss Appropriation Account . .		9,620
		,, Reserve Account .		180
	£9,800			£9,800

Dr. RESERVE ACCOUNT Cr.

	£			£
To Capital Redemption Reserve Fund .	180	*By Balance* . . .	b/d	3,000
,, **Bonus Share Dividend Account** .	**2,700**	,, Forfeited Shares Account . . .		150
,, Balance . .	270			
	£3,150			£3,150
		By Balance . . .	b/d	270

Dr. BONUS SHARE DIVIDEND ACCOUNT Cr.

	£			£
To Ordinary Share Capital Account	**12,500**	**By Capital Redemption Reserve Fund** . .		**9,800**
		,, **Reserve Account** .		**2,700**
	£12,500			£12,500

Dr. CASH Cr.

		£			£
To Balance . . .	b/d	40,330	By Sundry Members—Redemption of 24,800 Shares of £1 each at 22s. a Share . .		27,280
,, Ordinary Share Capital Account.		15,000	,, Balance . . .	c/d	28,050
		£55,330			£55,330
To Balance . .	b/d	28,050			

QUESTIONS

1. What are the regulations governing the issue by a company of Redeemable Preference Shares?

2. From the point of view of the book-keeping entries required, what is the main point of difference between a redemption of Redeemable Preference Shares (*a*) out of accumulated profits and (*b*) out of the proceeds of a new issue of shares?

3. Within what time must shares be redeemed after the issue of new shares placed on the market for that purpose?

4. Why is the redemption of Redeemable Preference Shares not looked upon as a reduction of capital?

EXERCISE XV (F)

1. The following is a summarized Balance Sheet of Communications, Ltd., at 30th June, 19..—

Liabilities	£	*Assets*	£
Capital Issued and Subscribed—		Sundry Assets . . .	200,000
100,000 Ordinary £1 shares . . .	100,000	Bank Balance . . .	85,000
50,000 Redeemable Preference £1 shares .	50,000		
Sundry Creditors . .	75,000		
Profit and Loss A/c . .	60,000		
	£285,000		£285,000

Under powers contained in the Articles of Association, the company resolves to redeem the preference shares out of profits at a premium of 2s. per share in accordance with Section 58 of the Companies Act, 1948. Prepare the Ledger Accounts necessary for recording the transactions, and a summarized Balance Sheet showing the position on completion of the redemption.

(*Incorporated Accountants.*)

2. A company had in issue 50,000 6 per cent Redeemable Preference Shares of £1 each, which were fully paid. Under the terms of the issue, the company had the option of redeeming these shares at a premium of 5 per cent, and decided to exercise this option on 1st January, 19—.

In order to provide £20,000 of the money required, a fresh issue of 5 per cent Redeemable Preference Shares of £1 each (payable in full on application) was made and was fully subscribed.

The 6 per cent shares were forthwith redeemed, the balance required being provided out of profits.

Show, by Journal entries, how these transactions should be recorded in the company's books.

(*R.S.A.*)

3. A company had in issue 200,000 6 per cent Redeemable Preference Shares of £1 each. Under the terms of the issue redemption was to take place on 1st September, 19... A General Reserve of £125,000 had already been built up out of past profits. For the purpose of the redemption 75,000 new 5 per cent Preference Shares of £1 each were offered to the public at 30s. payable in full on allotment. All were taken up and paid for.

The 6 per cent Redeemable Preference Shares were thereupon redeemed.

Show the Ledger entries to record the above.

4. 6,000 5 per cent Redeemable Preference Shares of £1 each fully paid in Semmonds, Ltd., are outstanding at the 31st March, 19—. The shares, being due for redemption at that date, are redeemed at 22s. each, the balance standing to the credit of the Profit and Loss Appropriation Account being £11,500.

You are required to show the Ledger accounts in the books of Semmonds, Ltd., giving effect to the above redemption.

(Corporation of Certified Secretaries.)

5. Andrews, Brown, and Jones are in partnership sharing profits in the proportions of 3, 3, and 2.

Andrews retired on 31st March, 1949, the firm's Balance Sheet immediately before the retirement being as follows—

	£	£		£
Capital Accounts—			Goodwill	3,600
Andrews	12,000		Fixed Assets	9,600
Brown	5,000		Stock	5,600
Jones	4,000		Debtors	3,721
		21,000	Cash	396
Creditors		1,917		
		£22,917		£22,917

Andrews's share of the Goodwill, valued in accordance with the partnership agreement, was found to be £1,800.

On 1st April, 1949, Smith joined the firm as a partner, bringing in £2,000 in cash, and for the purpose of the new partnership the Goodwill Account was to be written up to £4,700 before Smith's entry.

At the same time Brown and Jones each brought in £3,000 in cash, and Andrews withdrew £7,000, leaving the balance of his share as a loan to the firm.

Draw up the Balance Sheet of the firm after the above transactions have been completed. *(London Chamber of Commerce.)*

6. A company having its head office in London owns rubber plantations in Malay. The currency in Malay is the dollar, having a stable value of nearly 2s. 4d. and all transactions, as far as possible, are converted into sterling at this rate.

Explain what is the necessary exception to this rule of conversion, and what effect this exception will have in the London books. Also, explain how the company's Balance Sheet would show a bill of exchange drawn on the company in London by the plantation manager and discounted locally but not paid in London at the date of closing the books. *(London Chamber of Commerce.)*

7. Explain how, when an item of expenditure fluctuates heavily from one year to another, the annual charge against profits may be levelled by means of an equalization reserve.

Mention a well-known example of a reserve of this nature, and give a *pro forma* illustration, inserting figures, to explain the method of operation.

(London Chamber of Commerce.)

8. Munday, Jones and Fowler, in practice together as accountants, decide to dissolve partnership as from 30th June, 19.., continuing in practice thereafter separately. Profits had been shared in the proportions of 4, 3 and 2 respectively, and the firm's Balance Sheet showing the position as on the date of dissolution was as follows—

BALANCE SHEET, 30TH JUNE, 19..

Liabilities	£	£	*Assets*	£
Capital Accounts—			Goodwill	1,000
Munday	1,500		Office Furniture	219
Jones	1,500		Debtors	1,403
Fowler	500		Work in Progress	1,462
		3,500	Cash	919
Current Accounts—				
Munday	721			
Jones	236			
Fowler	354			
		1,311		
Creditors		192		
		£5,003		£5,003

The terms of dissolution were as follows—

(*a*) Each partner was to take over that portion of the practice with which he personally had dealt hitherto.

(*b*) Goodwill was to be revalued on the basis of recent profits, and the figure was agreed at £4,116. Of this it was agreed that Munday should be charged with one-half, and Jones and Fowler one-quarter each.

(*c*) Munday took over the office furniture at its book value.

(*d*) The debtors were to be taken over as follows: Munday, £660; Jones, £522 (subject to an allowance of £50 for doubtful debts), and Fowler, £221.

(*e*) Work in progress had been valued on a "cost" basis. For the purpose of division a proportion of profit was to be added and the amended figure apportioned as follows: Munday, £842; Jones, £931, and Fowler, £538.

You are required to close the books of the firm, assuming that all cash is paid into or out of the firm's accounts, none passing direct between partners. Journal entries are not required. (*London Chamber of Commerce.*)

9. Farndale & MacLeod, Ltd., Wholesale Stationers, Liverpool, have a registered Capital of 75,000 shares of £1 each upon which 15s. per share has been called up. Owing to default by non-payment of calls 500 shares upon which £100 has been received have been forfeited in accordance with the Articles of Association. From the following Trial Balance extracted from the books on the 31st December, prepare Balance Sheet, Trading Account, and Profit and Loss Account—

	£	s.	d.		£	s.	d.
Share Capital	55,875	–	–	as made on the 1st July)	600	–	–
Forfeited Share A/c	100	–	–	Reserve (1st January)	2,000	–	–
Calls in Arrear	75	–	–	Sundry Creditors	1,250	–	–
Leasehold Premises (1st January)	30,500	–	–	Bad Debts	272	–	–
Plant and Machinery (1st January)	11,000	–	–	Bank Overdraft	125	–	–
Additions to Plant and Machinery during year (all to be taken				Cash in hand	10	–	–
				Office Furniture (1st January)	65	–	–
				Sales	40,700	–	–

	£	s.	d.		£	s.	d.
Stock (1st January) .	3,560	–	–	Repairs to Plant and Machinery . .	61	–	–
Purchases . .	21,049	–	–	Profit and Loss Account (1st Jan.) *Dr.*	100	–	–
Debenture Interest half-year to 30th June, paid *less* tax .	141	5	–	Discounts Received .	327	–	–
Directors' Fees . .	200	–	–	,, Allowed .	2,474	15	–
Goodwill . . .	10,000	–	–	Sundry Debtors .	11,650	–	–
Wages . . .	10,747	–	–	Debentures, 500 at £10 each, bearing interest at 6% per annum . . .	5,000	–	–
Salaries . . .	1,020	–	–	Advertising Places, etc., at station as at 1st January, to be written off over 3 years . . .	600	–	–
Carriage Inwards .	74	–	–				
,, Outwards .	119	–	–				
Insurance . .	87	–	–				
Postages and Telegrams . . .	43	–	–				
Rates, Taxes, etc. .	482	–	–				
Office Wages . .	389	–	–				
Advertising . .	58	–	–				

£500 have accrued for Wages, allow 2½ per cent off Debtors and Creditors for discount. Insurance is prepaid £12. Depreciate Leasehold Premises 1 per cent per annum; Plant and Machinery 5 per cent per annum; Office Furniture 5 per cent per annum. Provide £125 for Bad Debts. Stock on hand on 31st December, £4,174. Assume original cost values for fixed assets. *(U.L.C.I.)*

10. Three doctors, A, B, and C, are in partnership in Kensington. The partnership comes to an end at 31st December, at which date the agreed figures of the Trial Balance are as follows—

	Dr. £	*Cr.* £
A. Capital Account at 1st January		2,500
B. ,, ,, ,, ...		1,500
C. ,, ,, ,, ...		1,200
Drawing Account—A at 31st December	1,225	
,, B ,, ...	634	
,, C ,, ...	723	
Book Debts (in North Kensington)	2,682	
,, (in South Kensington)	2,087	
Liabilities		316
Furniture and Fixtures	125	
Cash at Bankers	1,500	
Profit and Loss balance (before charging Interest on Capital)		3,460
	£8,976	£8,976

Each partner is to be credited with a year's interest at 5 per cent on his full Capital Account, and the remaining profit is to be divided, one-half to A, one-quarter to B, and one-quarter to C. A retires from practice; B takes over the furniture and the debtors in North Kensington, and assumes the liabilities; and C takes over the South Kensington debtors. Each partner takes a third of the Cash balance, and pays his own costs of coming to a settlement. Make out statements showing what are the respective sums to be received or paid by each partner on the final settlement. *(Chartered Accountants.)*

11. The Auto Brake Co., Ltd., offered to the public on 1st January 30,000 6 per cent Preference Shares, payable as follows; 5s. per share on application, 5s. per share on allotment, and the balance in calls not exceeding 5s. per share. Applications were received, and allotments made, as under—

		No. of Shares Applied for	No. of Shares Allotted
Jan.	2. Thomas O. Lucas, Baker, 62 Cold Harbour Lane, Bedford	2,500	2,000
,,	2. Percy F. Allen, Gentleman, Park Gates Mansion, Framley	10,000	6,000
,,	3. Albert R. Simpson, Clerk, 164 High Road, Burnham	120	nil
,,	3. George T. Roberts, Barrister, 24 Keble Street, Tooting Graveney, London, S.W.17	1,800	1,500
,,	4. Henry Peters, Butcher, 84 High Street, Merton, London, S.W.18	4,500	3,500
,,	4. Arthur O. Greenham, Coal Merchant, Leethorpe Road, Cardiff	5,000	4,000
,,	5. James Smithers, Farmer, Park Farm, Brimsley	3,500	3,000
,,	5. Edward E. Thompson, Brewer, 72 Shingle Street, Burton	1,600	1,500
,,	6. Frederick P. Martin, Clerk, 169 Tonge Road, Kealey	2,500	2,000
,,	6. Samuel Short, Stock Broker, 72 Moreton Road, Piccadilly, W.1	150	nil
,,	7. Philip J. Ruthven, Grocer, 29 Lake Street, Bashton	2,000	1,500
,,	8. Rufus O. Barnard, Major, 15 Lipton Mansions, Thornton Heath	5,500	5,000

Deposits were returned in full with Letters of Regret Nos. 3 and 4 to Simpson and Short. Allotments were made on 15th January in order of application, the shares being numbered from 50,001 upwards. Write up the Application and Allotments Book, and subsidiary Cash Book, recording the above particulars.

12. On 5th May, the directors of the Auto Brake Co., Ltd., made a first call of 5s. per share on the Preference Shares. The call was payable by the 20th May, and the following amounts were received—

May	8. R. O. Barnard	5,000	Shares	£1,250
,,	10. P. J. Ruthven	1,500	,,	375
,,	12. F. P. Martin	2,000	,,	250
,,	13. E. E. Thompson	1,500	,,	750
,,	14. J. Smithers	3,000	,,	750
,,	16. A. O. Greenham	4,000	,,	500
,,	17. H. Peters	3,500	,,	875
,,	19. O. F. Allen	6,000	,,	1,500
,,	20. T. O. Lucas	2,000	,,	500

F. P. Martin and A. O. Greenham were allowed till 20th June to pay the balance, on which date the sums due (plus interest thereon at 5 per cent) were duly received. No money at all was received from G. T. Roberts, whose Shares were forfeited on 25th June. Write up the Call Book and subsidiary Cash Book.

13. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Auto Brake Co., Ltd.—

June 23rd, 200 shares (1–200) from R. T. Lake to N. P. Locksley; No. of transfer deed, No. 1.

July 13th, 500 shares (201–700) from R. T. Lake to F. T. Bullen.
August 2nd, 1,000 shares (24,501–25,500) from J. P. Silverlock to F. T. Bullen.
September 15th, 300 shares (25,501–25,800) from J. P. Silverlock to F. T. Bullen.
November 18th, 500 shares (25,801–26,300) from J. P. Silverlock to Arthur Finchley, Solicitor, 11 Jupiter Street, Yeovil.
December 12th, 500 shares (26,301–26,800) from J. P. Silverlock to Robert T. Penwith, Leather Merchant, 11 Tower Street, Bermondsey, London, S.E.1.
Write up the Company's Register of Transfers.

14. Open the books, and prepare a Trial Balance therefrom, of a limited company formed on 1st January, with a Capital of 50,000 shares of £1 each and 1,000 Debentures of £50 each, both fully subscribed and paid-up in Cash on that date. The Company took over the business of a private firm, whose assets, purchased and paid for on 31st January, were as follows—

	£
Stock-in-trade	50,000
Book Debts	40,000
Cash at Bankers	5,000
Fixtures, Furniture, etc. . . .	2,000
Leasehold Premises	3,000
Goodwill	12,000

As part of the consideration for the purchase of the assets, the Company assumed the liabilities amounting to £12,000. *(Chartered Accountants.)*

15. The following represent the balances of the London books of the Eastern Company, Ltd., as on 31st December, viz.—

	£		£
Share Capital (70,000 shares of £1 each, fully paid) .	70,000	Provision for Doubtful Debts.	100
Bills Payable	5,500	Creditors	5,000
Bills Receivable	2,000	Payments in Advance . .	500
Investments at cost . . .	14,000	Properties	25,000
General Reserves . . .	8,000	Profit and Loss . . *Dr.*	21,200
Stocks on hand	600	Rangoon A/c	18,760
Debtors	3,000	Cash at Bank	3,500
		Cash in hand	40

Bills Receivable aggregating £4,000 were under discount.

The following Statement of Assets and Liabilities at 31st December was received from the manager of the Company's Rangoon Branch, viz.—

	Rs.	*a.*	*p.*		*Rs.*	*a.*	*p.*
Cash at Bankers .	185,372	5	–	Buildings, Plant, etc. .	46,280	12	–
Cash in hand . .	19,269	8	–	Debtors . . .	87,963	13	6
London A/c (£17,938 1s. 10d.) . .	269,071	6	–	Payments in Advance	3,000	–	–
General Reserves .	75,284	14	–	Provision for Doubtful Debts . . .	2,000	–	–
Stocks on hand .	327,595	3	–	Creditors . . .	548,125	5	–
Advances to Natives against security .	225,000	–	–				

The apparent difference, between the balance of the Rangoon Account in the London Books and the London Account in the Rangoon Books, consists of items in transit. You are required to prepare an amalgamated Balance Sheet as at 31st December.

The rupee to be taken at 1s. 4d. (16 annas = 1 rupee, 12 pies = 1 anna). *(Chartered Accountants.)*

16. On 31st December, 19.., the following was the Trial Balance of the Call Manufacturing Co., Ltd. The Nominal Capital of the company was £20,000, divided into 20,000 Ordinary Shares of £1 each. Adjustments to incorporate are—

(*a*) 10 per cent Depreciation off Plant and Machinery.
(*b*) 5 per cent Depreciation off Furniture and Fittings.
(*c*) The Provision for Bad Debts to be made up to 5 per cent of Debtors.
(*d*) Insurance unexpired on 31st December, £5 10s. 6d.
(*e*) A portion of premises owned by the company was sublet as from 1st July, 19.., at an annual rental of £50, but no rent has been paid by sub-tenant, or passed through the books.
(*f*) Stock, 31st December, 19.., £4,402 1s. 5d.

Prepare Trading and Profit and Loss Account and Balance Sheet, assuming any other necessary figures.

TRIAL BALANCE

	£	*s.*	*d.*		£	*s.*	*d.*
Final Call	250	–	–	Capital A/c— 16,000 Shares, fully called	16,000	–	–
Freehold Premises	3,200	–	–	Profit and Loss A/c—(Balance previous 31st December)	217	5	–
Rates, Taxes and Insurance	472	10	7	Discount	14	7	3
Office and Management Salaries	1,292	10	6	Sales	20,314	17	10
Office Expenses	217	14	11	Returns Outwards	196	19	5
Manufacturing Expenses	192	–	4	Sundry Creditors	3,410	5	9
Stock, 1st January	3,714	19	–	Bills Payable	984	8	1
Manufacturing Wages	6,901	1	9	Transfer Fee		2	6
Purchases	10,617	15	4	Provision for Bad Debts	315	9	4
Returns Inwards	307	12	9				
Carriage Inwards	471	10	4				
Carriage on Sales	314	–	11				
Sundry Debtors	8,617	5	–				
Factory Fuel and Power	172	19	5				
Lighting and Heating	74	16	1				
Goodwill	2,000	–	–				
Audit Fees and Legal Expenses	124	4	9				
Travelling Expenses	96	4	11				
Plant and Machinery	1,942	13	4				
Repairs	89	14	9				
Furniture and Fittings	134	6	8				
Cash at Bank	246	9	10				
„ in Hand	3	4	–				
Total of *Debits*	41,453	15	2	Total of *Credits*	41,453	15	2

(*R.S.A.*)

17. Morton & Sons supply their products in metal drums which cost 5s. 6d. each. These are charged to customers at 6s., full credit being allowed on drums returned in good condition. Outline a system you would recommend to record the receipt, issue, and return of these drums, and show the Drums Account as it would appear in the firm's impersonal ledger at the close of a year. Mention any points which would require to be dealt with at balancing time. (*R.S.A.*)

CHAPTER XV (*contd.*)

COMPANIES

SECTION (G)

BONUS SHARES, PURCHASE OF A BUSINESS, REDUCTION OF CAPITAL, AMALGAMATION, RECONSTRUCTION, REORGANIZATION, HOLDING COMPANIES

BONUS SHARES

The distribution of profits in the form of dividends has already been considered. When a company has had a particularly successful year, it is not unusual for the normal dividend to be declared and paid as such, a further distribution then being made as a bonus. This bonus may be paid in cash, in which case the entries will be similar to those required for a dividend. It does not follow, however, that a successful year indicates a large cash balance, and in any case, if the business is improving, funds will be required for future developments. The alternative to distributing additional profits in cash is to give the shareholders further shares or, if the present issue is only partly paid, to make a call and then to pay the call out of such profits so that the members have their shares made fully paid out of the bonus. There are a number of variations of this type of distribution, and in many cases fractions of shares are introduced. Before the book-keeping entries are considered, a better understanding will be obtained if the advantages and disadvantages of bonus share issues are considered from both angles; (*a*) As regards the company, and (*b*) as regards the shareholders. We must also consider (*c*) the effect on the market value of the shares.

(*a*) As regards the company.

Advantages—

1. Profits can be distributed without affecting the bank balance, which therefore remains to be used as additional working capital.

2. If profits are fairly constant after the issue, the distribution over a larger number of shares will reduce the **rate** of dividend paid. This may be considered expedient to minimize the effect the payment of large dividends may have on the workers who feel that they have produced the profits and should benefit by higher wages, or on customers who may consider excessive prices are being charged.

Disadvantage—

To maintain the dividend at the same rate, a policy which keeps the market price of the shares steady, correspondingly increased

profits must be earned. This applies in particular where a share bonus (say one new share for every ten held) is distributed year after year. Where a "share for share" bonus is distributed, it is clear that the rate of dividend in future will be, roughly, one-half of what it was in the past.

(*b*) As regards the shareholders.

Advantages—

1. No surtax is payable on a bonus share distribution.
2. Future income will be increased on the larger holding without any financial outlay.
3. If immediate cash is preferred by individual members their shares can generally be disposed of on the Stock Exchange.

(*c*) Effect on market value of holding.

Prima facie the price *per share* must be less after the bonus issue; but in theory the total value of the old holding should equal that of the new, thus—

Price of shares before bonus issue, 24s.
Bonus issue of 1 new share for every 2 held.
Price of shares after bonus issue, 16s., i.e. 2 shares at 24s., or 3 shares at 16s. = 48s.

(1) Bonus Shares issued at par

Example. A company with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £70,000, resolves to capitalize £50,000 of it by issuing to the shareholders 50,000 bonus shares of £1 each fully paid, each shareholder to receive one bonus share for every four shares held in the company. Show the entries required to record the transaction.

JOURNAL

		Dr.	Cr.
		£	£
	Reserve A/c	50,000	
	To Bonus Share Dividend A/c . . .		50,000
	Bonus payable out of Reserve in fully-paid shares as per Resolution dated		
	Bonus Share Dividend A/c	50,000	
	To Share Capital Account . . .		50,000
	Issue of 50,000 bonus shares of £1 each in payment of bonus, at the rate of 1 bonus share for every 4 shares held in the company.		

(2) Bonus Shares issued at a premium

Example. A company with a paid-up capital of £120,000 in £1 shares decides to distribute a bonus, equal to 25 per cent of its capital. The Reserve Fund was £50,000; the market value of shares is £3. It is proposed to issue the shares at a premium of £2 per share, and to distribute them to shareholders as to one fully-paid share for every twelve shares held. Prepare the necessary journal entries for putting into effect the issue of the bonus shares on the terms stated.

JOURNAL

		Dr.	Cr.
		£	£
	Bonus Share Dividend A/c	30,000	
	To Share Capital A/c		10,000
	,, Share Premium A/c		20,000
	Issue of 10,000 fully-paid shares, at a premium of £2 per share; distributed as to 1 share for every 12 held in the company.		

(3) Bonus applied to making Shares fully paid

Example. A company with a nominal and issued capital of £200,000 in £1 shares, 15s. per share paid, declares a bonus out of the Reserve Fund, at the rate of 33⅓ per cent on the paid-up capital, with the object of making the shares fully paid. Show the entries necessary to record the transaction.

JOURNAL

		Dr.	Cr.
		£	£
	Final Call A/c	50,000	
	To Share Capital A/c		50,000
	Call of 5s. per share on 200,000 shares, as per resolution dated..............		
	Reserve Fund A/c	50,000	
	To Bonus Share Dividend A/c . . .		50,000
	Bonus of 33⅓% on £150,000 paid-up Capital, payable out of the Reserve Fund, as per resolution dated..............		
	Bonus Share Dividend A/c	50,000	
	To Final Call Account		50,000
	Application of bonus to payment of Final Call, as per resolution dated..............		

In this case it is especially important to notice that the call must be made in the correct way by a resolution of the directors and the entries passed through the books, although the shareholders are not being called upon to pay it.

In addition to the simple entries shown in these three examples it will, of course, be necessary to prepare Bonus Share Lists showing the numbers to which each member is entitled, from which the Register of Members can be posted. As in the case of an issue to the public, these can also be used for recording application and allotment moneys where the bonus shares have to be paid for and the shareholder is given the option of "taking them up" or selling the "rights" on the Stock Exchange.

For example the £1 shares of a very successful company might quite well be changing hands at £3 each, and as a bonus, new shares might then be offered to the members on payment of £1 each.

The fact that fractions of shares will arise will be appreciated by a further consideration of the example under (1). In this case each shareholder is entitled to receive one bonus share for every four shares held, but a few, at least, of the holdings will not be multiples of four. These fractions may be dealt with in one of three ways:—

(i) If there are very few, they may be ignored.

(ii) They may be converted into cash by sale through the company's brokers and the proceeds distributed.

(iii) Fractional certificates or "scrip" may be issued.

Fractions. Assuming that the bonus represents one new share for every four held and that among the members are the following holdings—

A	850	=	$212\frac{1}{2}$	new	shares
D	75	=	$18\frac{3}{4}$	,,	,,
R	300	=	75	,,	,,
W	375	=	$93\frac{3}{4}$	,,	,,
	1600	=	400	,,	

A, D, R, and W, would be allotted the whole shares entered against their names, a share certificate being made out for 2 shares in the name of a nominee—a director or secretary; and of the net cash proceeds A, D, and W will receive two-eighths, three-eighths and three-eighths, respectively.

The purchaser of the two shares representing the fractions would, of course, be registered as the shareholder so that the issued capital would still be increased by the total number of shares created for purposes of the bonus.

Certificates or scrip. Where the fractions are numerous certificates are issued for the whole numbers and fractional certificates for the fractions to those shareholders on the list entitled to them. These latter cannot be entered on the Register of Members but by the process of buying and selling on the Stock Exchange, for which purpose a specified time is allowed, individuals become holders of whole numbers and exchange into ordinary certificates.

In summary form, the book-keeping entries are as follows—

1. *On the issue of fully paid bonus shares—*

   (*a*) Upon sanction of the dividend
   Debit Profit and Loss Appropriation Account (or Reserve).
   Credit Bonus Share Dividend Account.

   (*b*) Upon issue of the shares—
   Debit Bonus Share Dividend Account.
   Credit Share Capital Account.

2. *On utilization of a bonus share dividend for the purpose of discharging calls on shares—*

   (*a*) Debit Call Account.
   Credit Share Capital Account.
   (*b*) Debit Profit and Loss Appropriation Account (or Reserve).
   Credit Bonus Share Dividend Account.
   (*c*) Debit Bonus Share Dividend Account.
   Credit Call Account.

3. *Where a bonus dividend is to be applied to the issue of shares at a premium—*

   (*a*) Debit Profit and Loss Appropriation Account (or Reserve).
   Credit Bonus Share Dividend Account.
   (*b*) Debit Bonus Share Dividend Account.
   Credit Share Capital Account (nominal value).
   „ Share Premium Account (premium).

PURCHASE OF A BUSINESS

Vendor, Purchase Price, Going Concern. In numerous cases a company is formed for the purpose of acquiring and working an old-established business. The person who sells the business to the company is termed the **vendor,** and the money paid for the business is called the **purchase price.** The purchase price is generally paid, partly in cash, and partly in shares. If the prospectus showed that the vendor was taking the purchase price wholly in cash, it would give rise to suspicions on the part of the public; it would look as if the vendor had little faith in his own business, and was glad to be rid of it. In a good business, therefore, it will generally be found that the vendor takes a large number of shares in the company, thereby fostering the confidence of the general public. The shares

issued to the vendor may be valued either at par or at a premium, according to the agreement made with him. When such shares are allotted to the vendor they may be either fully or partly paid (usually the former). Sometimes, the business is taken over by the company as **a going concern,** i.e. exactly as it stands, all the assets including the cash, and all the liabilities, and without any stoppage of business. Sometimes, the cash of the old business is not taken over; sometimes, the liabilities are not taken over, but left for the vendor himself to discharge. These matters, however, are arranged by agreement.

Goodwill. A company usually purchases, not only the assets, but also the goodwill of the business, that is, the right to the good name and connexion of the business. In some cases the amount paid for goodwill is stated, in other cases it has to be ascertained. If the company takes over only the assets, then the goodwill will be the excess of the purchase price over the value of the assets. Thus, if the assets amounted to £10,000, and £15,000 was paid for the business assets and goodwill, then £5,000 would denote the value of the goodwill. If the company takes over both assets and liabilities, the difference between the assets and liabilities will show the capital value of the business. The excess of the purchase price over the capital value of the business will give the amount paid for goodwill. Thus, if the assets amount to £15,000 and the liabilities to £6,000, then £9,000 would denote the capital value of the business. If the purchase price of the business is £13,000, then £4,000 would be the amount to debit to a Goodwill Account.

Business Purchase Account. In journalizing the entries referring to the purchase of a business, the procedure is greatly simplified by opening a Business Purchase Account. This account is debited with the purchase price of the business, and the account of the vendor is credited with the same. This has the advantage of fixing the liability to the vendor. All the assets, including the amount for goodwill, are then debited to their respective accounts, and the total credited to the Business Purchase Account. The Business Purchase Account is then debited with the total of the liabilities taken over, and the liabilities are credited to their particular accounts. When these entries are posted, the Business Purchase Account will be found to balance; and all the assets and liabilities will have been brought into the books. It is possible, of course, to avoid these *three* entries and to show the transaction by means of *one* Journal entry, namely, by *debiting* all the assets, including the goodwill, and *crediting* the liabilities and also the amount due to the vendor. Students, however, are so often confused when they attempt this method, that it is advisable to follow the Business Purchase Account method for preference. Another very good method is to have *one* Journal entry for the asset accounts and *one*

for the liability accounts. This is very simple and leaves the vendor's account in credit for the amount due to him.

Formula for Purchase of a Business. The following detailed steps should prove useful to the student—

1. *Debit* Business Purchase Account and *credit* Vendor with the agreed purchase price.
2. *Debit* each asset, including goodwill, and *credit* Business Purchase Account with the total.
3. *Debit* Business Purchase Account with the total of the liabilities taken over, and *credit* each separate liability.
4. *Debit* Vendor, and *credit* Share Capital Account and Debentures Account, with the shares and debentures issued to him in part payment of the purchase price of the business.
5. *Debit* Application and Allotment Account (or Shareholders and Debenture Holders Account) with the amounts due from shareholders and debenture holders, and *credit* Share Capital Account and Debentures Account.
6. *Debit* Cash Account with the balance taken over (if any) and the amounts received from shareholders and debenture holders; *credit* Cash Account with any sums paid to the vendor.

Example. A company with an authorized capital of £150,000, consisting of 75,000 Ordinary Shares of £1 each, and 75,000 6 per cent Preference Shares of £1 each, and also £30,000 Debentures in bonds of £100 each, purchased as a going concern for £100,000 the business of Messrs. Rowell & Co., whose Balance Sheet was as below—

BALANCE SHEET

	£		£
Capital	70,000	Freehold Premises	30,000
Sundry Creditors	15,000	Plant and Machinery	15,000
Bills Payable	5,000	Furniture and Fixtures	2,000
		Stock	12,000
		Book Debts	26,500
		Bills Receivable	1,500
		Cash	3,000
	£90,000		£90,000

The purchase price was to be paid thus: £25,000 in fully-paid Ordinary Shares, £25,000 in fully-paid Preference Shares, £25,000 in Debentures, and the balance in cash. The remainder of the shares and debentures were offered to the public, and were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show the company's Balance Sheet.

JOURNAL

	Dr.	Cr.
	£	£
Business Purchase A/c	100,000	
To Vendors		100,000
Purchase price of business as per Agreement dated..		
Cash	3,000	
Bills Receivable	1,500	
Sundry Debtors	26,500	
Freehold Premises	30,000	
Plant and Machinery	15,000	
Stock	12,000	
Furniture and Fixtures	2,000	
Goodwill	30,000	
To Business Purchase A/c		120,000
Sundry Assets acquired as per Agreement dated..		
Business Purchase A/c	20,000	
To Bills Payable		5,000
,, Sundry Creditors		15,000
Sundry liabilities as per Agreement dated		
Rowell & Co. (Vendors)	75,000	
To Ordinary Share Capital . . .		25,000
(25,000 Shares of £1 each.)		
To Preference Share Capital . . .		25,000
(25,000 Shares of £1 each.)		
To Debentures		25,000
(250 Bonds of £100 each.)		
Shares and Debentures issued as fully paid in part payment of the purchase price, as per Agreement dated..		
Ordinary Shareholders	50,000	
To Ordinary Share Capital . . .		50,000
50,000 Shares of £1 each.		
Preference Shareholders	50,000	
To Preference Share Capital . . .		50,000
50,000 Shares of £1 each.		
Debenture Holders	5,000	
To Debentures		5,000
50 Bonds of £100 each.		

Dr. CASH BOOK Cr.

Receipts	Bank	Payments	Bank
	£		£
To Balance	3,000	By Rowell & Co.	25,000
,, Ordinary Shareholders	50,000	,, Balance c/d	83,000
,, Preference Shareholders	50,000		
,, Debenture Holders	5,000		
	£108,000		£108,000
To Balance b/d	83,000		

BALANCE SHEET

	£		£
Authorized & Issued Capital:		*Fixed Assets*—	
75,000 Ordinary Shares of £1 each	75,000	Goodwill at cost	30,000
75,000 Preference Shares of £1 each	75,000	Freehold Premises at cost	30,000
Debentures—		Plant and Machinery at cost	15,000
300 Bonds of £100 each	30,000	Fixtures and Fittings at cost	2,000
Sundry Creditors	15,000	*Current Assets*—	
Bills Payable	5,000	Stock	12,000
		Sundry Debtors	26,500
		Bills Receivable	1,500
		Cash at Bank	83,000
	£200,000		£200,000

Where the vendor is a partnership, the correct division of the shares and the cash needs consideration.

In the absence of agreement the fairest way is to divide the shares out first in the same ratio as profits and losses are shared, thus giving the partners the same right to any profit on the sale as if they had remained partners. The cash is then paid out to balance their Capital Accounts.

Example 1. R, S, and T, partners, share profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet at 31st December, 19.., is—

BALANCE SHEET AS AT 31ST DECEMBER, 19..

	£	£		£	£
Capital Accounts—			Sundry Assets		10,650
R	5,500		Sundry Debtors	3,000	
S	3,000		*Less* Bad Debts Reserve	300	2,700
T	2,000				
		10,500	Cash at Bank		300
Sundry Creditors		3,150			
		£13,650			£13,650

They have agreed to sell their business for £13,500, payable as to £1,500 in cash; balance in shares worth £1 each. The creditors are to be taken over by the company, as also is the cash at bank.

Dr. REALIZATION ACCOUNT *Cr.*

19..		£	19..		£
Jan. 1	To Sundry Assets . .	10,650	Jan. 1	By Sundry Creditors . .	3,150
	,, Sundry Debtors . .	3,000		,, Bad Debts Reserve .	300
	,, Cash at Bank . . .	300		,, Purchasing Company .	13,500
	,, Profit on Realization—				
	R $\frac{3}{6}$ . . £1,500				
	S $\frac{2}{6}$ . . 1,000				
	T $\frac{1}{6}$. 500				
		3,000			
		£16,950			£16,950

Dr. PURCHASING COMPANY *Cr.*

19..		£	19..		£
Jan. 1	To Realization Account— Purchase Price . .	13,500	Jan. 1	By Shares	12,000
				,, Cash	1,500
		£13,500			£13,500

Dr. CAPITAL ACCOUNT—R. *Cr.*

19..		£	19..		£
Jan. 1	To Shares	6,000	Jan. 1	By Balance	5,500
	,, Cash	1,000		,, Share of Profit on Realization	1,500
		£7,000			£7,000

Dr. CAPITAL ACCOUNT—S. *Cr.*

19..		£	19..		£
Jan. 1	To Shares	4,000	Jan. 1	By Balance	3,000
				,, Share of Profit on Realization	1,000
		£4,000			£4,000

Dr. CAPITAL ACCOUNT—T. *Cr.*

19..		£	19..		£
Jan. 1	To Shares	2,000	Jan. 1	By Balance	2,000
	,, Cash	500		,, Share of Profit on Realization	500
		£2,500			£2,500

Dr. SHARES IN NEW COMPANY ACCOUNT *Cr.*

19..		£	19..		£
Jan. 1	To Purchasing Company .	12,000	Jan. 1	By Capital A/c—	
				R $\frac{3}{6}$	6,000
				S $\frac{2}{6}$	4,000
				T $\frac{1}{6}$	2,000
		£12,000			£12,000

Example 2. X and Y trading in partnership share profits and losses equally. On 30th September, 19.., they sold their business to P, Ltd.

Their Balance Sheet at this date was—

BALANCE SHEET AS AT 30TH SEPTEMBER, 19..

		£		£
Capital Accounts—			Sundry Assets . . .	16,350
X . .	£5,280		Cash	470
Y . .	4,560		Current A/c: X. . .	500
		9,840		
Current A/c: Y . . .		480		
Loan A/c: X . . .		2,100		
Creditors		4,900		
		£17,320		£17,320

The purchasers agree as follows—

(*a*) To pay deposit of £5,000 immediately so that the firm could discharge its liabilities.

(*b*) To give £3,000 for goodwill and £15,920 in cash for the remaining assets (excluding cash which is not taken over).

(*c*) To pay interest on the balance of purchase price at 5 per cent per annum, full completion to be made on 31st December, 19...

X and Y are to be allowed interest on their capitals at 5 per cent per annum, and X to be allowed interest on his loan at 4 per cent per annum till settlement. Ignore tax.

Show accounts in the books of the vendors.

The items in italics (disposing of the Balance Sheet items) should FIRST be inserted so as to commence "in balance."

Dr. REALIZATION ACCOUNT *Cr.*

			£			£
19..				19..		
Sept. 30	To Assets .		*16,350*	Sept. 30	By P. Ltd.—Purchase Consideration .	18,920
" 30	" Expenses . .		*?*			
" 30	" Profit—					
	X .	£1,285				
	Y .	1,285				
			2,570			
			£18,920			£18,920

Dr. CASH *Cr.*

			£			£
19..				19..		
Sept. 30	To Balance . .	b/d	*470*	Sept. 30	By Expenses of Realization . .	*?*
Oct. 1	" P., Ltd. . .		5,000	Oct. 1	" Creditors . .	*4,900*
Dec. 31	" " " : Balance		14,094	Dec. 31	" Loan A/c . .	*2,121*
				" 31	" Capital A/cs—	
					X . . .	6,146
					Y . . .	6,397
			£19,564			£19,564

P, LTD.

Dr.		£		Cr.	£
19..			19..		
Sept. 30	To Realization A/c—Purchase Consideration .	18,920	Oct. 1	By Cash: (Deposit) .	5,000
Dec. 31	„ Interest on Balance—£13,920 at 5% per annum for 3 months .	174	Dec. 31	„ Cash: Balance .	14,094
		£19,094			£19,094

CAPITAL ACCOUNTS

Dr.			X	Y		Cr.		X	Y
19..			£	£	19..			£	£
Dec. 31	To Cash . .		6,146	6,397	Sept. 30	By Balances .	b/d	5,280	4,560
					„ 30	„ Current A/cs		785	1,765
					Dec. 31	„ Interest on Capital .		66	57
					„ 31	„ Interest A/c—Balance .		15	15
			£6,146	£6,397				£6,146	£6,397

CURRENT ACCOUNTS

Dr.			X	Y		Cr.		X	Y
19..			£	£	19..			£	£
Sept. 30	To Balance .	b/d	500		Sept. 30	By Balance .	b/d		480
„ 30	„ Capital A/cs .		785	1,765	„ 30	„ Profit on Realization .		1,285	1,285
			£1,285	£1,765				£1,285	£1,765

LOAN ACCOUNT X

Dr.			£		Cr.		£
19..				19..			
Dec. 31	To Cash . . .		2,121	Sept. 30	By Balance . . .	b/d	2,100
				Dec. 31	„ Interest on Loan .		21
			£2,121				£2,121

INTEREST ACCOUNT

Dr.			£		Cr.		£
19..				19..			
Dec. 31	To Interest on Capital—X . . £66; Y . . 57		123	Dec. 31	By P. Ltd. . . .		174
„ 31	„ Interest on Loan X		21				
„ 31	„ Balance: Capital Accounts: X: ½ . £15; Y: ½ . 15		30				
			£174				£174

Note 1. The order of payment should be carefully observed. If the balance of Current Account of X had still remained in debit after balancing Realization Account it would have been set off against his Loan Account.

REDUCTION OF CAPITAL

Provisions of the Companies Act. By Sections 66 and 67 of the Companies Act, 1948, it is enacted as follows—

Subject to confirmation by the Court, a company limited by shares,.............. ....may, if so authorized by its Articles, by special resolution reduce its share capital in any way, and in particular, without prejudice to the generality of the foregoing power, may—

(*a*) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or

(*b*) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or

(*c*) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the company,

and may, if and so far as is necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly. (Sect. 66.)

Where a company has passed a resolution for reducing share capital, it may apply to the Court for an order confirming the reduction. (Sect. 67.)

Where the reduction involves repayment to or diminution of liability of shareholders or in any other case if the Court directs, creditors may object to the reduction and the Court may order the debts of such creditors to be paid or secured. The order of the Court must also be produced to the registrar of companies before it takes effect.

Limited and Reduced. When the Court has made an order confirming the reduction—which may include such terms and conditions as it may think fit—it may, by Section 68 (2), (*a*) if for any special reason it thinks proper so to do, make an order directing that the company shall, during such period, commencing on or at any time after the date of the order, as specified in the order, add to its name as the last words thereof the words "and reduced"; and (*b*) make an order requiring the company to publish, as the Court directs, the reasons for reduction . . . .

Meaning of Reduction of Capital. Reduction of capital means a diminution in the nominal amount of the share capital of a company; also, a reduction in the paid-up capital of a company means a reduction of capital.

Circumstances leading to a Reduction of Capital. A company might require to reduce its capital in the following circumstances—

(*a*) If there were an accumulation of trading losses representing the result of several years of adverse fortune in the prosecution of its business;

(*b*) If there were capital losses of an extensive nature requiring drastic revaluation of the assets of the company;

(*c*) If the cash resources of the company are such that there seems no likelihood of that cash ever being required for the business.

Methods of Effecting the Reduction of Capital. There are several ways by which a company may give effect to the reduction of its capital. Of the cases (*a*), (*b*), and (*c*) above, the most usual form of reduction of capital is that which arises out of the paid-up capital having been lost, or the capital being unrepresented by available assets, i.e. (*a*) or (*b*). (See the section "Extinguishing Losses and Writing down Assets" below.)

At the same time as the resolution reducing the capital it is usual to pass a resolution increasing the authorized capital to the original amount—i.e. the amount on which stamp duty has been paid.

(1) Writing off Losses

Example. A limited company, having sustained heavy losses obtained the sanction of the Court to reduce its capital from 100,000 shares of £1 each, fully paid, to 100,000 shares of 10s. each, fully paid. Make the necessary journal entry to effect this change of the company's capital, and state how the Share Ledger and Certificates will be adjusted.

JOURNAL

		Dr.	*Cr.*
		£	£
	Share Capital A/c	50,000	
	To Profit and Loss A/c		50,000
	Reduction of 100,000 shares of £1 each, fully-paid, to 100,000 shares of 10s. each, fully-paid, as per Order of the Court dated......................		

It is of the utmost importance that the carrying into effect of a "reduction" does not create a further liability on the shareholders as regards their holdings. For instance, if an attempt be made to reduce the paid-up capital, say, from 10s. paid up to 5s. paid up on the individual shares—without reducing the nominal amount of the share—the company would not be acting according to the intention of the Act, which is to limit the liability of the shares to the amount for which they were issued, and the arrangement indicated above would defeat that object.

In the Share Ledger, each page will be impressed with a rubber stamp referring to the resolution and its effect. The Share Certificates will either be dealt with in a similar manner or new ones will be issued to replace them.

(2) Extinguishing Losses and Writing down Assets

(This illustrates the most common type of capital reduction scheme.)

Example. Below is the Balance Sheet of the Thetis Co., Ltd., as at 31 December, 19..

	£	£		£
Authorized Capital—240,000 Shares of £1	£240,000		Freehold Land and Buildings	25,000
			Machinery and Plant . .	55,420
			Patents	67,000
			Stock	8,250
Issued Capital .—			Sundry Debtors . . .	4,738
100,000 Ord. Shares of £1 each . .		100,000	Preliminary Expenses . .	5,000
			Cash in hand . . .	60
80,000 Pref. Shares of £1 each . . .		80,000	Profit and Loss Account—balance at debit . .	30,532
Bank Overdraft . .		4,000		
Sundry Creditors . .		12,000		
		£196,000		£196,000

Resolutions were passed, (1) That the £1 Preference and Ordinary Shares be reduced to the same number of fully-paid shares of 15s. and 10s. for the respective classes of shares; (2) That the sum thus rendered available be applied as follows: (*a*) The balances to the debit of Profit and Loss and Preliminary Expenses to be written off; (*b*) the Machinery and Plant to be reduced to £40,000; (*c*) £1,000 to be written off the Stock; (*d*) the balance to be utilized to reduce the Patents Account; (3) That the Authorized Capital be increased to £240,000 made up of 300,000 Ordinary Shares of 10s. and 120,000 Preference Shares of 15s. each. Make the necessary Journal entries, and draw up the new Balance Sheet.

JOURNAL

		Dr.	*Cr.*
		£	£
	Preference Share Capital A/c . . .	20,000	
	To Capital Reduction A/c . . .		20,000
	80,000 Preference Shares of £1 each, fully paid, reduced to 80,000 shares of 15s. each, fully paid, as per resolution dated		
	Ordinary Share Capital A/c . . .	50,000	
	To Capital Reduction Account . .		50,000
	100,000 shares of £1 each, fully paid, reduced to 100,000 shares of 10s. each, fully paid, as per resolution dated		
	Capital Reduction A/c	70,000	
	To Profit and Loss A/c		30,532
	„ Preliminary Expenses A/c . . .		5,000
	„ Machinery and Plant A/c . . .		15,420
	„ Stock A/c		1,000
	„ Patents A/c		18,048
	Amounts written off, as per resolution dated		

LEDGER

CAPITAL REDUCTION ACCOUNT

Dr. | Cr.

19..			£	19..			£
Dec. 31	To Profit and Loss .		30,532	Dec. 31	By Preference Share Capital A/c .		20,000
	„ Preliminary Expenses . .		5,000		„ Ordinary Share Capital A/c. .		50,000
	„ Machinery and Plant . .		15,420				
	„ Stock .		1,000				
	„ Patents . .		18,048				
			£70,000				£70,000

PREFERENCE SHARE CAPITAL ACCOUNT

Dr. | Cr.

19..			£	19..			£
Dec. 31	To Capital Reduction A/c . .		20,000	Dec. 31	By Balance . .		80,000
	„ Balance c/d . .		60,000				
			£80,000				£80,000
				Dec. 31	By Balance b/d .		60,000

ORDINARY SHARE CAPITAL ACCOUNT

Dr. | Cr.

19..			£	19..			£
Dec. 31	To Capital Reduction A/c . .		50,000	Dec. 31	By Balance . .		100,000
	„ Balance c/d .		50,000				
			£100,000				£100,000
				Dec. 31	By Balance b/d. .		50,000

BALANCE SHEET OF THE THETIS COMPANY, LIMITED AND REDUCED

	£		£
Authorized Capital—		Freehold Buildings . .	25,000
300,000 Ord. Shares of 10s. £150,000		Plant and Machinery .	40,000
120,000 Pref. Shares of 15s. 90,000		Patents . .	48,952
£240,000		Stock . .	7,250
		Sundry Debtors . .	4,738
		Cash in hand . . .	60
Issued Capital—			
100,000 Ord. Shares of 10s.	50,000		
80,000 Pref. Shares of 15s.	60,000		
Bank Overdraft . . .	4,000		
Sundry Creditors . .	12,000		
	£126,000		£126,000

The student's attention is especially drawn to the fact that whilst, in this example, the Preference shareholders have been called upon to forfeit 5s. of the capital value of their shares, the Ordinary shareholders have suffered a loss of 10s. per share. Generally speaking, this is always the case in a reduction of capital although it is clear that, as the circumstances which bring about the reduction vary widely in each individual case, so will the rights of the various classes of shareholders be affected to a different degree. Whether or not it is equitable is a matter for the Court to decide.

But this is the guiding principle. During the better years of the life of the company, the equity holders—usually the holders of Ordinary shares—benefit by the larger dividends paid, and on this basis should expect to suffer to a greater extent should a reduction become necessary.

From a shareholder's point of view, a capital reduction might appear to be somewhat of a tragedy, but it may, in fact, be a blessing in disguise. **The main purpose of a reduction is to eliminate the *Dr.* balance of the Profit and Loss Account from the books, so making possible a resumption of dividends.**

In almost every case the necessity is forced upon the company as the result of a number of very bad years, and if this is so, it is reasonable to assume that the market value of the shares is reflected in a very low price. The shareholder has therefore, in fact, already lost his capital if he wishes to dispose of his shares. One of the most likely results of a capital reduction is an early resumption of dividends, the effect of which will be to improve the prospects in the share market and in the long run carry them to a higher figure than that at which they stood when they were of a higher nominal value.

Reference to a capital reduction of wide public interest will bear out and amplify the above remarks.

The following are extracts from a financial paper in which the details were published—

AMALGAMATED ANTHRACITE SCHEME

The scheme of arrangement which the Board of Amalgamated Anthracite Collieries is presenting to shareholders is necessarily somewhat drastic. To secure a firm basis for the scheme, the directors have obtained an independent valuation of the chief assets. And to enable the assets to be written down to that valuation, a capital cut of over 50 per cent is required. The present issued capital of £9,105,098 is to be reduced by £4,918,339 to £4,581,660.[1] The scheme itself is somewhat complicated and, *as is right and proper*, the Ordinary shareholders make the greatest sacrifice.

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[1] The apparent discrepancy in these figures is due to the fact that the scheme also includes an increase of capital for the purpose of capitalizing the preference dividend arrears.

The ultimate effect of the scheme can be summarized as follows—

Existing Holding	*Holding under Scheme*
100 Preference £1 "original issue" .	100 "A" Preference shares of 10s. each.
	100 "B" Preference shares of 10s. each.
	100 Ordinary 4s. shares.[2]
100 Preference £1 "1937 issue" .	100 "A" Preference shares of 10s. each.
	100 "B" Preference shares of 10s. each.
	75 Ordinary 4s. shares.
100 Ordinary £1 shares . .	100 Ordinary 4s. shares.

The ability of the company to earn profits depends entirely on trade conditions, but the directors are satisfied that the present scheme *brings the payment of dividends* on all classes of shares very much nearer.

(3) Return of Capital Not Required

A reduction by the repayment of unrequired capital is naturally in an entirely different category. The nominal Capital is not reduced in this case but by the repayment the shares are reduced to a lower paid-up value so that should use be found for the money at a later date it is only necessary to make a call; a much cheaper and quicker operation than making a new issue.

The entries would consist of—

1. *Dr.* Capital A/c.

   Cr. Return of Capital A/c (or Capital Reduction A/c).

2. *Dr.* Return of Capital A/c.

   Cr. Cash.

A reduction of capital may also be effected by a company in the following circumstances—

(*a*) Forfeiture of shares for non-payment of calls;

(*b*) Surrender of shares by a member in circumstances which entitle the company to forfeit his shares for non-payment of calls;

(*c*) Cancellation of unissued shares.

AMALGAMATION OF LIMITED COMPANIES

For many years, there has been an increasing tendency for companies engaged in the same or similar classes of business to combine and amalgamate, their purpose being to effect economies by eliminating wasteful duplication of expenditure and also to decrease the risk of competition. Many different methods are adopted, varying according to circumstances and the wishes of the directors and/or shareholders of the companies concerned.

The principal forms of amalgamation may be described thus—

1. *Formation and promotion of a new (purchasing) company* to take over the assets, etc., of two or more existing companies, the latter

[2] The receipt of shares of a nominal value of 24s. per £1 share is due to the fact that as a part of the scheme arrears of preference dividends amounting to £591,104 are being cancelled. This represents about 5s. per share.

being wound up on completion of the transfer. Alternatively, the new company may become a "holding company," i.e. it acquires and holds the shares of the existing companies, who retain their separate existence.

2. *Amalgamation by absorption*, where one existing company purchases and takes over the entire business of another company, and the latter is wound up.

3. *Amalgamation by the acquirement of a controlling interest*, where one company purchases not less than three-fourths of the issued capital of another company, and both companies retain their separate existence.

AMALGAMATION BY FORMATION OF A NEW COMPANY, THE OLD COMPANIES BEING WOUND UP

A striking example of this method of amalgamation was the combination into four distinct groups of the railways of Great Britain, each group consisting of several companies whose assets were transferred to one new company. The old companies ceased to exist, and the new company issued fresh stock certificates to the shareholders of the old companies in accordance with the terms arranged.

In the amalgamation of limited companies, it is necessary first to obtain the shareholders' sanction to the scheme of amalgamation and the sale of the assets to the new company; and then to appoint liquidators whose duty it is (1) to carry the scheme into effect, and (2) to wind up the vendor companies. The liquidators, however, really act as the vendor to the new company, from whom they receive the purchase consideration (usually fully-paid shares of the new company, but sometimes partly cash and partly shares or debentures). The cash and/or shares, etc., is distributed to the shareholders of the old companies.

Closing the Books of the Old Companies. The precise procedure varies in accordance with the terms arranged for the transfer of the old companies' businesses, e.g. whether the new company takes over the cash as well as the other assets and discharges the liabilities, etc., or otherwise. The following formula, which is expressed in general terms, may be found useful:—

1. Open a Business Realization Account, *debiting* this account with the assets taken over and *crediting* it with the liabilities transferred. The contra entries appear in the various assets and liabilities accounts, which are now closed.

2. *Debit* the new company and *credit* Business Realization Account, the balance of the latter account being transferred to a Sundry Shareholders Account. A credit balance indicates a

profit on realization, whilst a debit balance represents a loss. In some cases, however, the net assets are taken over at the book values and thus neither a profit nor a loss occurs.

3. Open a Shares Account, *debiting* it with the value of the shares received from the new company. If the purchase consideration includes cash or debentures, additional accounts are opened as may be required.

4. Close the Share Capital Account, Reserve Account (if any), and Profit and Loss Account by transfer to the Sundry Shareholders Account.

5. *Debit* the Sundry Shareholders Account with the amount of shares, debentures or cash distributed to the shareholders and *credit* Shares, Debentures or Cash Account, as the case may be.

6. Where the old company retains its cash balance, discharges its liabilities, and pays its own expenses, these transactions are passed through the Cash Account, the expenses incurred being debited to the Business Realization Account.

Fractional Certificates. Occasionally the allotment of shares in the new company involves the issue of fractional certificates. For example, the Batcedo Co. issues 200,000 shares of £1 each as purchase consideration to the Bat Co., whose issued capital is £150,000 only and, therefore, four shares in the new company are issued in exchange for three shares of the old company. Thus, a shareholder owning ten shares is entitled to $10 \times \frac{4}{3} = 13\frac{1}{3}$ shares in the new company. Two methods are available for dealing with the fractional parts, viz.—

1. Fractional certificates are issued and shareholders must either sell them or buy additional fractional certificates to make up a whole share. Upon surrender of the requisite fractional certificates, a complete share is allotted and issued.

2. The company sells sufficient shares to represent the total fractional parts and distributes the proceeds to the members entitled thereto.

Fractional parts of a share may also arise under reconstruction schemes or schemes for the reorganization of the share capital and are dealt with as outlined above.

Distribution of Shares, etc., to the Old Shareholders. The liquidators of the old companies prepare a Share Distribution List, showing the names and addresses of the old shareholders, and particulars of their shareholding in the old and new companies. If fractional certificates are involved, or if the purchase consideration includes the issue of debentures or a cash payment to the old shareholders, additional columns must be provided for these particulars. A duplicate of this list is handed to the new company, and forms the basis of the allotment and entries in the new share registers, etc.

SHARE DISTRIBUTION LIST

LEFT-HAND RULING.

Old Share Led. Fo.	Name		Address	Shares in Old Company			
	Surname	Christian Names		Old Cert. No.	No. of Shares	Distinctive Numbers	
						From	To

RIGHT-HAND RULING.

Shares in New Company				New Share Led. Fo.	Cash Payment				Remarks
New Cert. No.	No. of Shares	Distinctive Numbers			Chq. No.	Amount			
		From	To						
						£	s.	d.	

New Company's Books. The entries to be made in the new company's books are as follows—

1. *Debit* each asset account, including goodwill, and *credit* Business Purchase Account, with the total.
2. *Debit* Business Purchase Account with the total of the liabilities taken over, and *credit* the separate liability accounts.
3. *Debit* Business Purchase Account, and *credit* the liquidators of the vendor companies with the agreed purchase price.
4. *Debit* the liquidators of the vendor company with the total allotment of shares, debentures, or cash paid (as the case may be) in satisfaction of the purchase price.
5. Where the new company obtains the benefit of any reserves

or undivided profits, the Business Purchase Account will show a credit balance as the total value of the assets transferred will be in excess of the combined total of the liabilities and purchase price. This balance should be transferred to the credit of a Capital Reserve Account; it is not permissible to use it for revenue purposes. Payments for liquidation or preliminary expenses in connexion with the acquirement of the business may be debited to this account, and the balance utilized for the reduction of goodwill.

6. If the combined total of the liabilities taken over and the purchase price is in excess of the total value of the assets, the difference is debited to Goodwill.

7. In some cases, the new company makes a further capital issue to provide additional working capital. The entries required for such issue will be identical with the entries for new companies discussed earlier in the chapter.

Example. The Bat Co., Ltd., and the Cedo Co., Ltd., agree to combine and form a new company under the title of the Batcedo Co., Ltd., with a capital of £300,000 in £1 shares to acquire their businesses. The sale contract provides that the new company is to take over the whole of the assets and liabilities of both companies, the consideration being the issue to the Bat Co. of £200,000, and to the Cedo Co. of £75,000 in fully-paid £1 shares, the latter company also to receive £7,500 in cash.

The new company is to pay the liquidation expenses of the Bat Co. (£900) and Cedo Co. (£600), and its own formation expenses of £1,800, these amounts to be charged against the Capital Reserve Account.

The balances in the books of the vendor companies at the date of the amalgamation were as shown below.

	Bat Co.		Cedo Co.	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	£	£	£	£
Issued Share Capital		150,000		75,000
Goodwill	25,000		10,000	
Freehold and Leasehold Property	95,600		45,280	
Plant and Machinery	35,250		21,560	
Stock-in-Trade	18,760		12,685	
Sundry Debtors	12,655		6,525	
Sundry Creditors		8,620		5,680
Mortgage on Property				10,000
Bank Balances	27,605		3,130	
Reserve A/c		50,000		5,000
Profit and Loss Balances		6,250		3,500
	£214,870	£214,870	£99,180	£99,180

Assume that the amalgamation was duly completed and the mortgage paid off. Prepare (1) the liquidators' closing accounts for the old companies, and (2) the opening accounts and the first Balance Sheet of the new company.

Books of the Bat Co., Ltd.

The principal Ledger accounts are as follows—

Dr. BUSINESS REALIZATION ACCOUNT *Cr.*

	£		£
To Sundry Assets .	214,870	By Creditors . .	8,620
		,, Batcedo Co. . .	200,000
		,, Sundry Shareholders (Balance written off)	6,250
£	214,870	£	214,870

Dr. BATCEDO CO., LTD. *Cr.*

	£		£
To Business Realization A/c . . . (Agreed purchase price)	200,000	By Shares **A/c** . .	200,000

Dr. SHARES ACCOUNT *Cr.*

	£		£
To Batcedo Co., Ltd. . (Shares received)	200,000	By Sundry Shareholders (Distribution of shares)	200,000

Dr. SHARE CAPITAL ACCOUNT *Cr.*

	£		£
To Sundry Shareholders	150,000	By Balance b/f . .	150,000

Dr. RESERVE ACCOUNT *Cr.*

	£		£
To Sundry Shareholders	50,000	By Balance b/f . .	50,000

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£		£
To Sundry Shareholders	6,250	By Balance b/f . .	6,250

SUNDRY SHAREHOLDERS

Dr.	£	Cr.	£
To Shares Distributed .	200,000	By Capital A/c . .	150,000
,, Business Realization A/c . . .	6,250	,, Reserve A/c . .	50,000
		,, Profit and Loss .	6,250
£	206,250	£	206,250

Books of the Cedo Co., Ltd.

BUSINESS REALIZATION ACCOUNT

Dr.	£	Cr.	£
To Sundry Assets .	99,180	By Creditors . .	5,680
		,, Mortgage . .	10,000
		,, Batcedo Co., Ltd. .	82,500
		,, Sundry Shareholders	1,000
	£99,180		£99,180

MORTGAGE ACCOUNT

Dr.	£	Cr.	£
To Business Realization A/c . . .	10,000	By Balance b/f . .	10,000

BATCEDO CO., LTD.

Dr.	£	Cr.	£
To Business Realization A/c . . . (Agreed purchase price)	82,500	By Shares . . .	75,000
		,, Cash . . .	7,500
	£82,500		£82,500

SHARES ACCOUNT

Dr.	£	Cr.	£
To Batcedo Co., Ltd. . (Shares received)	75,000	By Sundry Shareholders (Distribution of Shares)	75,000

SHARE CAPITAL ACCOUNT

Dr.	£	Cr.	£
To Sundry Shareholders	75,000	By Balance b/f . .	75,000

Dr. RESERVE ACCOUNT Cr.

	£		£
To Sundry Shareholders	5,000	By Balance b/f . .	5,000

Dr. PROFIT AND LOSS ACCOUNT Cr.

	£		£
To Sundry Shareholders	3,500	By Balance b/f . .	3,500

Dr. SUNDRY SHAREHOLDERS Cr.

	£		£
To Shares Distributed .	75,000	By Capital A/c . .	75,000
,, Cash . . .	7,500	,, Reserve A/c . .	5,000
,, Business Realization A/c . . .	1,000	,, Profit and Loss .	3,500
	£83,500		£83,500

Books of the Batcedo Co., Ltd.

Dr. LIQUIDATOR OF THE BAT CO., LTD. Cr.

	£		£
To Creditors (liabilities taken over) .	8,620	By Sundry Assets .	214,870
,, Shares issued in Payment of Purchase	200,000		
,, Balance Transferred to Reserve . .	6,250		
£	214,870	£	214,870

Dr. LIQUIDATOR OF THE CEDO CO., LTD. Cr.

	£		£
To Creditors (liabilities taken over) .	5,680	By Sundry Assets .	99,180
,, Cash—Mortgage paid off . .	10,000		
,, Shares issued in Part Payment . .	75,000		
,, Cash — Balance of Purchase Price .	7,500		
,, Balance transferred to Reserve . .	1,000		
	£99,180		£99,180

Dr. SHARE CAPITAL ACCOUNT *Cr.*

			£
		By Bat Co. . . .	200,000
		,, Cedo Co. . .	75,000
		£	275,000

Dr. CAPITAL RESERVE ACCOUNT *Cr.*

	£		£
To Cash—		By Bat Co. . . .	6,250
Bat Liquidation Expenses. .	900	,, Cedo Co. . .	1,000
Cedo Liquidation Expenses .	600		
Preliminary Expenses . .	1,800		
,, Balance c/d . .	3,950		
	£7,250		£7,250
		By Balance b/d . .	3,950

Dr. CASH ACCOUNT *Cr.*

	£		£
To Cash transferred from Bat Co. . .	27,605	By Cedo Co., Mortgage paid off . .	10,000
,, Cedo Co. . .	3,130	,, Cedo Co., Balance of Purchase Price .	7,500
		,, Liquidation Expenses Bat Co. .	900
		Cedo Co. . .	600
		,, Preliminary Expenses . .	1,800
		,, Balance c/d . .	9,935
	£30,735		£30,735
To Balance b/d . .	9,935		

BALANCE SHEET OF THE BATCEDO CO., LTD.

	£		£
Authorized Share Capital, 300,000 Shares of £1 each.	300,000	Goodwill	35,000
		Freehold and Leasehold Property	140,880
Issued Share Capital: 275,000 Shares of £1 each, fully paid	275,000	Plant and Machinery . .	56,810
		Stock-in-Trade . . .	31,445
Capital Reserve A/c . .	3,950	Sundry Debtors . . .	19,180
Sundry Creditors. . .	14,300	Cash	9,935
£	293,250	£	293,250

AMALGAMATION BY FORMATION OF A "HOLDING COMPANY"

This method is a variation of the preceding one; the old companies continue their separate existence, and the new company either—

(1) Purchases the shares of the old companies for cash, in which case the entries required are a debit to Investment Account and a credit to cash for the amount paid for the shares; or

(2) Allots and issues its own shares in exchange for the shares of the old companies. By this method, the entries required are a debit to Investment Account and a credit to Share Capital Account.

Whichever method is adopted, the financial books of the old companies are not affected; all that occurs is a change of shareholders, and this change is effected by the execution of transfer deeds in the usual manner; the entries recording the transfers being made in the Register of Transfers and Share Ledger.

The new "holding" company makes a public issue of capital to provide itself with the necessary funds; the financial books recording this issue being written up in the ordinary way. Nominally, the assets of the new company consist of shares in the old companies, but, in reality, the "holding" company is the absolute owner of the old companies' businesses.

AMALGAMATION BY ABSORPTION

Where one company acquires the business of another, the latter company going into liquidation and its separate existence being terminated, the transaction is described as "amalgamation by absorption." Usually, the purchasing company acquires the entire undertaking, i.e. it takes over the whole of the assets and also discharges the liabilities, but in some cases, only the assets are transferred, the liabilities being paid by the vendor company.

A practical point which arises for consideration is that the vendor company's business may be a valuable one and the sale, consequently, results in a profit to the shareholders, such profit arising (1) from a higher price being paid for goodwill than the amount at which it stands in the company's books, (2) the reserves being no longer required, and (3) the market value of the purchasing company's shares (which form part of the sale consideration) being greater than their nominal value. In some cases the market price of the shares may be at a discount, but as this probably will be taken into consideration when fixing the purchase price for the absorbed company's business, the absorption may still show a profit to the shareholders. In order to show the transaction in its true aspect, the vendor company should pass the shares received through its books at their market value.

With the purchasing company, however, different considerations arise, and the shares issued in payment (or part payment) must be dealt with on the basis of their nominal value. Thus, if company A, whose £1 shares stand at a premium of 10s. per share, purchases the undertaking of company B, for £150,000, payable in fully-paid £1 shares, and the net assets acquired (i.e. the excess of total assets over liabilities) are valued at £230,000, the purchasing company apparently makes a profit of £80,000, as it acquires assets worth that amount in excess of the purchase price. The real effect of the transaction is, however, that company A issues shares of the total nominal value of £150,000 at a premium of £80,000, and the latter amount must be credited to a Premium on Shares Account. The true intrinsic value of a share is not its nominal value but its market value, i.e. the price at which it may be bought or sold; and it will be seen that the shareholders of the vendor company receive, approximately, the true value of the assets transferred.

Generally, the purchase price is fixed after a detailed valuation of the assets and liabilities has been agreed upon but, in some cases, the practice obtains of settling the purchase price on the basis of the market value of the vendor company's shares. For example, if company C, whose shares stand at 5s. per share premium, has an issued capital of £80,000, this indicates that the market estimates the total value of the net assets, in round figures, at £100,000. Now, if the undertaking is absorbed by company D on this basis, the purchase price payable is £100,000, whatever the book value of the assets may be. Usually, they are somewhat less, and the purchasing company must revalue the assets and make the necessary adjustments. Floating assets and liabilities must appear at their actual value, whilst the surplus of the purchase price over the book value of the remaining assets is attributable either (1) to an increase in value of some of the fixed assets (land, property, etc.), or (2) to the value of the goodwill.

Example. The Balance Sheet of the Dale Co., Ltd., at 31st December 19.., is as follows—

	£		£
Capital—		Land and Buildings	75,000
120,000 shares of £1 each,		Plant and Machinery	36,450
fully paid	120,000	Stock-in-Trade	45,575
Reserve Fund	60,000	Sundry Debtors	38,250
Profit and Loss A/c—		Cash at Bankers	12,380
Balance at Credit	6,528	Cash in hand	123
Sundry Creditors	21,250		
	£207,778		£207,778

The entire undertaking is acquired—as on the above date—by the Somerton Co., Ltd., the agreed purchase consideration being the payment in cash of £100,000 and the allotment of two fully paid £1 shares (market value 25s. per share) of the Somerton Co. in exchange for each three shares of the Dale Co. The liquidation expenses of the vendor company amount to £1,500, the balance of the cash consideration being distributed *pro rata* amongst the shareholders.

Close the books of the vendor company and show the opening entries in the books of the purchasing company to record the acquisition of the business.

Books of the Dale Co., Ltd.

JOURNAL

		£	£
	Realization A/c . . . . . . Dr.	207,778	
	To Sundry Assets		207,778
	being total value of assets disposed of.		
	Sundry Creditors . . . . . Dr.	21,250	
	To Realization Account		21,250
	being amount of liabilities		
	Somerton Co., Ltd. . . . . . Dr.	200,000	
	To Realization A/c		200,000
	being agreed purchase price.		
	Shares A/c . . . . Dr.	100,000	
	Cash A/c . . . . "	100,000	
	To Somerton Co., Ltd.		200,000
	being receipt of purchase consideration; £100,000 in cash, and 80,000 shares of £1 each fully paid, valued at 25s. per share.		
	Realization A/c . . . . . . Dr.	1,500	
	To Cash		1,500
	being payment of liquidation expenses.		
	Share Capital A/c . . . . . Dr.	120,000	
	Reserve Fund . . . . "	60,000	
	Profit and Loss A/c . . . . . "	6,528	
	To Sundry Shareholders		186,528
	being transfer of balances.		
	Business Realization A/c . . . . Dr.	11,972	
	To Sundry Shareholders		11,972
	being transfer of profit on realization.		
	Sundry Shareholders . . . . . Dr.	198,500	
	To Shares		100,000
	To Cash		98,500
	being distribution of 16s. 8d. in the £ in shares and 16s. 5d. in the £ in cash.		

The two principal Ledger accounts are as follows—

Dr. REALIZATION ACCOUNT Cr.

	£		£
To Sundry Assets .	207,778	By Creditors . .	21,250
,, Liquidation Expenses . .	1,500	,, Somerton Co. .	200,000
,, Transfer to Sundry Shareholders .	11,972		
	£221,250		£221,250

Dr. SUNDRY SHAREHOLDERS Cr.

	£		£
To Shares . . 80,000 £1 shares at 25s. . .	100,000	By Share Capital .	120,000
,, Cash . . .	98,500	,, Reserve Fund .	60,000
		,, Profit and Loss .	6,528
		,, Realization A/c .	11,972
	£198,500		£198,500

Books of the Somerton Co., Ltd.

JOURNAL

	£	£
Land and Buildings . . . . . Dr.	75,000	
Plant and Machinery . . . . . ,,	36,450	
Stock-in-Trade . . . . . . ,,	45,575	
Sundry Debtors . . . . . . ,,	38,250	
Cash at Bankers . . . . . ,,	12,380	
Cash in Hand . . . . . . ,,	123	
To Liquidator of the Dale Co., Ltd. . . being value of assets acquired.		207,778
Liquidator of the Dale Co., Ltd. . . Dr.	21,250	
To Sundry Creditors . . . . . being liabilities taken over.		21,250
Liquidator of the Dale Co., Ltd. . . Dr.	186,528	
To Share Capital A/c . . . . . being allotment of 80,000 shares of £1 each, fully paid.		80,000
To Cash		100,000
,, Premium on Shares A/c . . . . being excess value of the net assets over the nominal value of shares and cash paid.		6,528

The Ledger account for the liquidator of the Dale Co. will appear as follows—

Dr. LIQUIDATOR OF THE DALE CO., LTD. *Cr.*

		£		£
	To Sundry Creditors	21,250	By Sundry Assets	207,778
	„ Share Capital	80,000		
	„ Cash	100,000		
	„ Premium on Shares	6,528		
		£207,778		£207,778

AMALGAMATION BY THE ACQUIREMENT OF A CONTROLLING INTEREST

Under this form of amalgamation, an existing company purchases a sufficient number of shares of another company so as to obtain a controlling interest in the latter concern; the shares being acquired either by agreement with the shareholders or by purchase in the open market. The Companies Act, 1948, provides that a three-fourths majority of the shareholders, present either personally or by proxy at an extraordinary general meeting, is needed to pass certain resolutions effecting any important alterations in the constitution—or the regulations—of the company. To ensure effective control, therefore, the shares acquired must be not less than three-fourths of the issued capital.

The entries required in the books of the purchasing company are a debit to Investment Account (Shares in . . . Co., Ltd) and a credit to cash for the cost of the shares purchased; the investment appearing as an asset in the Balance Sheet. The financial books of the company whose shares are purchased are not affected; all that occurs is a change of shareholders, the new shareholders being either the purchasing company itself or its nominees; the only entries made are in the Transfer Register and the Share Ledger recording the transfer of the shares.

Both companies continue their separate existence, but, usually, the purchasing company nominates, wholly or partially, a fresh directorate and thereby obtains day-to-day control over the other company's activities.

RECONSTRUCTION

The term "Reconstruction" is commonly used to describe a scheme under which a company goes into liquidation for the express purpose of selling its assets to a new company for partly paid shares carrying a further liability. Usually, the liquidating company has exhausted its working capital and, by means of such

a scheme, the company is reconstructed and reconstituted so as to form a new company with precisely the same objects, the same or a similar name, and composed of the same shareholders, who are called upon to provide additional working capital.

Reconstruction schemes, however, may also be initiated for the purpose of (1) widening the company's sphere of operations by enlarging the powers contained in its Memorandum of Association, (2) changing the domicile of the company, e.g. a Scottish company registered at Edinburgh wishing to become an English company with a London registration, or (3) carrying into effect a compromise with its creditors and/or members, by which the creditors will accept shares or debentures in satisfaction of their debts.

The term "reconstruction" is also used in connexion with schemes for reduction of capital; this phase of the subject is dealt with on pages 692–7.

Entries in the Books. The entries in the financial books of the old company are similar to those for the liquidation of a vendor company in an amalgamation. For the new company, the entries are upon the same lines as for a new company acquiring a vendor's business in exchange for shares credited as fully or partly paid.

When partly-paid shares are issued, the entries for the additional capital called up are made in the ordinary manner. (See page 535.)

REORGANIZATION

This term is generally used to denote the re-arrangement of a company's share capital, either by the consolidation of shares of different classes, or by the subdivision of the shares into different classes. Simple consolidation of shares and their division into shares of larger amount than existing shares, or the subdivision of shares into shares of smaller amount is sanctioned by Section 61 of the Companies Act, 1948, and such alterations must be notified to the registrar of companies within one month of their being put into effect.

Where the re-arrangements involve the revision of preferential or deferred rights possessed by certain classes of shareholders, such revision must be sanctioned by the shareholders and may require to be confirmed by the Court in the manner provided for by Section 72 of the 1948 Act.

Reorganization differs from Reconstruction in that the latter usually involves the liquidation and winding up of the original company, a new company taking over its entire undertaking, whilst reorganization does not involve liquidation, the company continuing its separate existence with a re-arrangement of

its capital and possibly the revision of the rights of different classes of shareholders.

Further, reorganization differs from reconstruction in that the latter change follows from the exhaustion of and inability to raise working capital; whereas the former change is a matter of expediency only in regard to having its share capital consolidated, or divided.

A close study of the practical examples in this chapter should aid the students' discrimination of the terms under which changes in the formation, control and capital, etc., of companies are treated.

Entries in the Books. In most cases, the only entries required are the closure of the old share capital accounts, and the opening of new accounts to correspond with the revised capital. For example, a company has issued 100,000 Ordinary Shares of £1 each, and it decides to divide these shares into two classes, viz. 50,000 Preferred Ordinary Shares of £1 each (with prior rights as to dividend and return of capital in a winding-up) and 50,000 Deferred Ordinary Shares of £1 each. The Journal entry to record this re-arrangement will be as follows—

		£	£
	Ordinary Share Capital A/c . . *Dr.*	100,000	
	To Preferred Ordinary Share Capital A/c .		50,000
	,, Deferred Ordinary Share Capital A/c .		50,000
	being the division of the company's paid-up share capital into two classes in accordance with special resolution passed on .... 19 ...		

Share Conversion List. The members' accounts in the Share Ledger for the Ordinary Shares are closed and new accounts opened for the Preferred and Deferred Ordinary Shares. To facilitate the entries in the new Share Ledgers and the exchange of the old share certificates for the new certificates, a share conversion list is compiled in the following or similar manner.

SHARE CONVERSION LIST

LEFT-HAND RULING.

Old Share Led. Fo.	Name		Address	Old Ordinary Shares			
	Surname	Christian Name		Old Cert. No.	No. of Shares	Distinctive Numbers From	Distinctive Numbers To

RIGHT-HAND RULING.

New Preferred Ordinary Shares				New Share Led. Fo.	New Deferred Ordinary Shares				New Share Led. Fo.	Remarks
Cert. No.	No. of Shares	Distinctive Numbers			Cert. No.	No. of Shares	Distinctive Numbers			
		From	To				From	To		

The conversion of share capital into stock or vice versa, and other re-arrangements of capital are effected in a similar manner.

Exchange of Debentures for Shares. Sometimes, debentures are issued with the right, at the holder's option, of conversion into shares, but in such cases it is important to remember that although debentures may be issued at a discount, shares must be paid for in full, either in cash or some other consideration. It is only possible for shares to be issued at a discount with the consent of the Court; consequently, unless that consent is obtained, if debentures are issued at the rate of £95 per £100 debentures, the maximum nominal value of shares that may be issued in exchange for a £100 debenture is £95. For example, assuming that £10,000 debentures are issued at £95, the entries required upon issue are indicated by the following Journal entry—

		£	£
	Cash . . . . *Dr.*	9,500	
	Debenture Discount A/c . . . . ,,	500	
	To Debenture A/c		10,000
	being issue of £10,000 debentures at £95 per £100.		

The Debenture Discount Account is extinguished by successive transfers to the debit of Profit and Loss Account over a period of years, say, ten years or other period as may be arranged, according to the term or life of the debentures.

When the debentures are converted into shares, the difference between the nominal value of the shares allotted and the amount of the debentures surrendered may be utilized in extinguishing any debit balance of the Debenture Discount Account, or, if the latter account is closed, transferred to the credit of Premium on Shares Account.

If, at the end of, say, five years, the whole of the debentures in the foregoing example were converted into shares, and there was

a debit balance of £250 in the Debenture Discount Account, the Journal entry to record the conversion will be—

		£	£
	Debenture A/c . . . . . . *Dr.*	10,000	
	To Share Capital A/c		9,500
	,, Debenture Discount A/c . . .		250
	,, Premium on Shares A/c		250
	being conversion of £10,000 debentures into 9,500 shares of £1 each; shares allotted ....19.... (*vide* Minute Book).		

Further, a Debenture Conversion List, similar to the Share Conversion List shown on the previous page, will be prepared, the accounts in the Register of Debenture Holders closed, and new accounts opened for each allottee in the Register of Members and Share Ledger.

HOLDING COMPANIES

Definition of a Holding Company. A holding company is defined by the Companies Act, 1948, Section 154 (4), as follows—

A company shall be deemed to be another's holding company if, but only if, that other is its subsidiary.

A holding company then is briefly one which has acquired control over one or more other companies.

Subsidiary Company. Section 154 of the Companies Act, 1948, states—

(1) . . . a company shall . . . be deemed to be a subsidiary of another, if, but only if—

(*a*) that other either:

(i) is a member of it and controls the composition of its board of directors; or

(ii) holds more than half in nominal value of its equity share capital; or

(*b*) the first-mentioned company is a subsidiary of any company which is that other's subsidiary.

In determining whether a company is a subsidiary of another company shares held by a nominee or by a subsidiary company of that other company shall be treated as being held by that company, but shares held in a fiduciary capacity shall not be treated as held by that company.

Advantages of the " Holding " System of Control. (*a*) The subsidiary companies so held remain separate entities, and practically no disturbance takes place in their *modus operandi*.

(*b*) The goodwill of the subsidiary companies represented by trade marks and trade names remains intact.

(*c*) Whilst the holding company has a controlling interest in the subsidiary companies, and a central policy is possible, the subsidiaries prosecute their several business policies as determined by their own managements, who are in the best position to judge local conditions and requirements, etc.

(*d*) Financial and statistical results being separately prepared for each unit, comparisons of results are easier to follow and understand than when merged into one huge set of figures as obtains for a concern with a head office and branches (i.e. the multiple shop system).

(*e*) Financial arrangements as regards reserves for contingencies and trading reserves, also control of working capital, are best arranged by each subsidiary company whose management would be fully cognisant of all the circumstances involved in such matters.

(*f*) The capital resources, or means of creating them, are enhanced by the "holding" company which can arrange for seasonal capital to its subsidiaries, also permanent capital is provided by the "holding" company whose status in the money market is a guarantee of its strength, whereas not one of the subsidiaries may be strong in this way.

Disadvantages of the "Holding" System of Control. A disadvantage of this system is the power which the directors have to mislead shareholders; also the facility given to the manipulation of inter-company transactions with the intention of concealing the true state of affairs, which is a practice that may be carried out by unscrupulous directors, although the Companies Act, 1948, has done much to reduce this danger.

Accounts of Holding Companies—Provisions of the Companies Act, 1948. The 8th Schedule to the Companies Act, 1948, makes it obligatory for holding companies to set out separately in their accounts the following information—

(1) The aggregate amount of shares in subsidiaries.

(2) The aggregate of amounts owing by subsidiaries to the company.

(3) The aggregate of indebtedness to subsidiaries of the company.

(4) By way of note, the number, description and amount of shares in or debentures of the company held by its subsidiaries or their nominees (excluding shares held on trust, provided the company or its subsidiaries are not beneficially interested).

The method used to arrive at the value of the shares which are fixed assets must be stated but the requirements of the 8th Schedule as to the method of stating fixed assets (i.e. at cost less aggregate depreciation) or investments do not apply.

In addition to the above information, unless the company is a wholly owned subsidiary of another company incorporated in Great Britain, group accounts must be laid before the company in general meeting with the company's own Balance Sheet.

Group Accounts shall be in the form of *Consolidated Accounts* comprising a consolidated Balance Sheet and a consolidated Profit and Loss Account dealing with the affairs of the company and all its subsidiaries. (Section 151 (1).)

If, however, the company's directors are of opinion that it is *better* for the purpose—

(*a*) of presenting the same or equivalent information about the company and its subsidiaries,

(*b*) of so presenting it that it may be readily appreciated by the company's members,

the group accounts may be prepared in another form (Section 151 (2)).

Thus, more than one set of consolidated accounts may be prepared dealing with different groups of companies, or separate accounts of each subsidiary or of statements expanding the information about subsidiaries in the company's own accounts.

The group accounts may be wholly or partly incorporated in the company's own Balance Sheet and Profit and Loss Account (Section 151 (3)).

The group accounts must give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries, and for this purpose the directors of the holding company are to secure that, except where there are good reasons against it, the financial years of the holding company and its subsidiaries shall coincide.

Consolidated accounts are to comply with the provisions of the 8th Schedule so far as applicable, i.e. the form of accounts and the information given must be similar to that of the holding company's own Balance Sheet and Profit and Loss Account.

Where group accounts are not submitted the company must annex to the Balance Sheet a statement showing—

(*a*) the reasons why subsidiaries are not dealt with in group accounts;

(*b*) the net aggregate amount, so far as it concerns members of the holding company and is *not* dealt with in the company's accounts, of the subsidiaries' profits, after deducting the subsidiaries' losses (or vice versa)—

(i) for the respective financial years of the subsidiaries ending with or during the financial year of the company; and

(ii) for the previous financial years since they respectively became the holding company's subsidiary;

(*c*) the net aggregate amount of the subsidiaries' profits after deducting the subsidiaries' losses (or vice versa)—

(i) for the respective financial years of the subsidiaries ending with or during the financial year of the company;

(ii) for their other financial years since they respectively became the holding company's subsidiary;

so far as those profits *are* dealt with, or provision is made for those losses, in the company's accounts;

(*d*) any qualifications in the report of the auditors of the subsidiaries on their accounts for their respective financial years ending as aforesaid, and any note or saving contained in those accounts to call attention to a matter which,

apart from the note or saving, would properly have been referred to in such qualification, in so far as the matter which is the subject of the qualification or note is not covered by the company's own accounts and is material from the point of view of its members;

or, in so far as the information required by this sub-paragraph is not obtainable a statement that it is not obtainable. (Part II of Eighth Schedule, paragraph 15 (4).)

The statement must also show in relation to the subsidiaries whose financial years did not end with that of the company—

(*a*) The reasons why the company's directors consider the subsidiaries' financial years should not end with that of the company; and

(*b*) the dates on which the subsidiaries' financial years ending last before that of the company respectively ended or the earliest and latest of those dates.

Accounts of Subsidiary Companies. The Balance Sheet of a company which is a subsidiary of another company must show—

(1) The aggregate amount of its indebtedness to all companies of which it is a subsidiary or a fellow subsidiary,

(2) the aggregate amount of the indebtedness of all such companies to it,

distinguishing between indebtedness in respect of debentures and otherwise.

Revenue from Subsidiary Companies. A holding company would, generally, be sparing in taking the profits of its subsidiaries. Probably, only dividends declared would be brought into the holding company's final accounts.

From a successful subsidiary company only profit equal to the proportion that the holding company's share of its capital bears to its total capital may be taken credit for in the holding company's Profit and Loss Account.

As regards losses, it would seem a sound policy to make an adequate reserve for them.

No hard-and-fast rule can be applied, such matters being within the discretionary powers of the board of directors.

Obviously, the directorate would have the financial stability and prestige of its company to safeguard, and it would seem prudent to be conservative in taking profits, but liberal in providing against losses.

Book-keeping Entries in the Case of the Holding Company. On the purchase of the shares the holding company will debit Shares in Subsidiary Company Account and credit Cash, Share Capital, or Debentures Account, according to the method of purchase adopted.

Consolidated Accounts. Consolidated accounts may be regarded as the accounts of the holding company and its subsidiaries combined into one business under the name of the holding company. Thus the consolidated Balance Sheet will consist of the

holding company's Balance Sheet, with the assets and liabilities of the subsidiary companies substituted for the item "shares in Subsidiary Companies." The share capital in the Balance Sheet will be that of the holding company.

As the accounts are prepared to show the position of the group as a whole, it is necessary to eliminate all transactions between the companies comprising that group. For this purpose the group may be compared to a business with one or more branches keeping separate accounts (although it must always be remembered that each company is a separate legal entity). If branch A owes money to branch B, it would not be correct to show branch A as a debtor and branch B as a creditor in the Balance Sheet of the business. Similarly if A sells to B the sale and the purchase must be eliminated from the Trading Account of the business as a whole; and if the goods were sold at a profit by branch A and remained in stock at the date of the Balance Sheet, the correct value to be placed on the goods is the cost *to the business* and not the inflated cost to branch B. In other words the accounts will show the results of the business in its dealings with the outside world and will ignore internal transactions.

Complications do arise when there are outside minority shareholdings in subsidiary companies. From the point of view of such shareholders any profit made by their company is a true profit even if it is made by selling to another member of the group of companies. This being so, it is usual to eliminate only that part of any inter-company profit which belongs to the group, and the portion attributable to minority shareholders is credited to their account in the consolidated Balance Sheet.

Example. The accounts of X, Ltd. and its Subsidiary Y, Ltd. for the year ended 31st December are shown below. X, Ltd. acquired the shares in Y, Ltd. two years ago when the balance of Y, Ltd's. Profit and Loss Account was £1,000. Prepare a consolidated Profit and Loss Account and Balance Sheet (ignore income tax).

PROFIT AND LOSS ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER

Dr.	X, Ltd.	Y, Ltd.		X, Ltd.	Y, Ltd. *Cr.*
	£	£		£	£
To Auditors' Remuneration	200	100	By Trading Profit	3,000	1,600
" Depreciation	300	200	" Dividend from Y, Ltd.	300	
" Directors' Fees	1,000	400			
" Net Profit c/d	1,800	900			
	£3,300	£1,600		£3,300	£1,600
To Income Tax	800	380	By Balance b/f	550	1,700
" Proposed Dividend (net)	550	220	" Net Profit b/d	1,800	900
" Balance c/f	1,000	2,000			
	£2,350	£2,600		£2,350	£2,600

BALANCE SHEETS AS AT 31ST DECEMBER

	X, Ltd.	Y, Ltd.		X, Ltd.	Y, Ltd.
	£	£		£	£
Authorized and Issued Capital	10,000	4,000	Fixed Assets	6,000	4,000
Profit and Loss Account	1,000	2,000	3,000 Shares in Y, Ltd., at Cost	4,000	
Y, Ltd.	500		Current Assets	3,000	2,500
Sundry Creditors	950	780	X, Ltd.		500
Proposed Dividend	550	220			
	£13,000	£7,000		£13,000	£7,000
			Note. Stocks of Y, Ltd., include £500 goods supplied by X, Ltd. Cost of such goods to X, Ltd., was £400.		

The steps in the preparation of the consolidated accounts are as follows—

(1) Eliminate inter-company transactions, i.e. in this case, the dividend paid by Y, Ltd. to X, Ltd. and the inter-companies' profit in the stock of Y, Ltd.

(2) Separate the interests of outside shareholders in the subsidiary company.

(3) Separate profits and reserves attributable to periods prior to the acquisition of the shares by the holding company, which are capital from the point of view of the group, and those subsequent to the acquisition of the shares.

(4) Offset the cost of the shares in the subsidiary against their nominal value and any profits and reserves attributable to capital (as in (3)). Any difference will represent either Goodwill or Capital Reserve.

(5) All that remains is to add liabilities of each company and assets of each company to arrive at the consolidated figures.

The working has been set out in columnar form below—

PROFIT AND LOSS ACCOUNT (*Cr.*)

	X, Ltd.	Y, Ltd		Consolidated A/cs
	£	£		£
Trading Profit	3,000	1,600	Deduct Profit on Stock, £100 (Reduce Stock in Balance Sheet)	4,500
Dividend from Y, Ltd	300		This dividend was deducted from Y, Ltd.: Profit and Loss Account in the previous year (as a proposed dividend), and must therefore be added to the balance of profit brought forward to eliminate it.	
				£4,500

PROFIT AND LOSS ACCOUNT (*Dr.*)

	X, Ltd.	Y, Ltd.			Consolidated A/cs
	£	£			£
Auditors' Remuneration	200	100			300
Depreciation	300	200			500
Directors' Fees	1,000	400	Note that it is not necessary to show such fees in the Consolidated Profit and Loss Account, and, if it was not desired to do so, they could be eliminated by reducing the trading profit.		1,400
Net Profit	1,800	900			
Attributable to Outside Shareholders			$\frac{1}{4}$ of £900		225
Attributable to the Group—Holding Company			£1,800 reduced by amounts already deducted from income—Dividend £300 and Inter-Company Profit £100 =	£1,400	
Subsidiary Company			$\frac{3}{4}$ of £900	675	2,075
					£4,500

APPROPRIATION ACCOUNT (*Cr.*)

	X, Ltd.	Y, Ltd.			Consolidated A/cs
	£	£			£
Balance b/f	550	1,700	Y, Ltd.	£1,700	
			Deduct Amount due to Outside Shareholders ($\frac{1}{4}$)	425	
				1,275	
			" Capital Portion of Remainder ($\frac{3}{4}$ of £1,000)	750	
				525	
			Add Dividend (see P. & L. A/c)	300	
			X, Ltd.	550	1,375
Net Profit b/d	1,800	900	Amount attributable to Group as per Profit and Loss Account		2,075
					£3,450

APPROPRIATION ACCOUNT (*Dr.*)

	X, Ltd.	Y, Ltd.		Consolidated A/cs
	£	£		£
Income Tax on Group Profits	800	380	Deduct Amount attributable to Outside Shareholders ($\frac{1}{4}$ of £380 = £95)	1,085
Proposed Dividend			(Holding Company only)	550
Balance c/f				1,815
				£3,450

BALANCE SHEET

	X, Ltd.	Y, Ltd.				Consolidated A/cs
	£	£				£
Capital	10,000	4,000	Holding Company only			10,000
			Subsidiary Company .		£4,000	
			Less Outside Shareholders		1,000	
			Held by X, Ltd. . .		3,000	
			Add Capital Portion of P. & L. A/c . . .		750	
					3,750	
			Amount Paid for Shares .		4,000	
			Excess Amount paid for Goodwill (*contra*) . .		250	
Outside Shareholders . .			Shares (see above) . .		1,000	
			Proportion of P. & L. A/c ($\frac{1}{4}$ × 2,000) . . .		500	
			Proportion of Proposed Dividend		55	
						1,555
Profit and Loss Account . .			Y, Ltd. . .	£2,000		
			Proportion Due to Outside Shareholders.	500		
			Due to Group .	1,500		
			Less Capital Portion	750		
				750		
			Proposed Inter-Co. Div. ($\frac{3}{4}$) . .	165		
					915	
			X, Ltd. . .	1,000		
			Less Inter-Co. Profit	100		
					900	
						1,815
Y, Ltd.	500		*Contra*			
Sundry Creditors . . .	950	780				1,730
Proposed Dividend. . .	550	220	Holding Co. only			550
						£15,650
	£	£				£
Goodwill			(*Contra*)			250
Fixed Assets	6,000	4,000				10,000
3,000 Shares in Y, Ltd. . .	4,000		(*Contra*)			—
Current Assets . . .	3,000	2,500	*Deduct* Inter-Co. Profit in Stock, £100			5,400
X, Ltd.		500	*Contra*			—
						£15,650

The Balance Sheet figures have been worked independently of the Profit and Loss Account, but it will be seen that they provide a ready check upon each other.

QUESTIONS

1. Bonuses may be distributed in cash or in shares. Why is the second method so frequently adopted and what are the different forms which such a share distribution may take?
2. What are the advantages and disadvantages to the company of making a bonus share issue?
3. What are the advantages and disadvantages to the shareholders of a bonus share issue?

4. How are fractions of shares dealt with in connexion with a bonus issue?

5. Explain the terms "vendor," "purchase price," "going concern." How is the vendor usually paid?

6. How is Goodwill ascertained when a company takes over (*a*) only assets, (*b*) both assets and liabilities?

7. What is the object and use of a "Business Purchase Account"? Submit a formula for the purchase of a business.

8. What statutory powers has a company with reference to (*a*) the alteration of share capital, (*b*) the reorganization of share capital?

9. What is meant by the Reserve Liability of a limited company?

10. What mortgages are compelled to be registered by the 1948 Act, and within what time? Can anyone inspect the Register of Mortgages kept by the registrar of companies?

11. What are the principal forms under which limited companies may amalgamate their businesses? Discuss their principal features.

12. Explain how fractional parts of a share are dealt with in an amalgamation, reconstruction, or reorganization, etc.

13. Outline a scheme of "amalgamation by absorption."

14. How is a "controlling interest" in a company acquired?

15. Define the terms "Reconstruction" and "Reorganization." What is the distinctive difference between a reconstruction scheme and a reorganization scheme?

16. Explain briefly the treatment of bonus shares.

17. In what ways may capital be reduced in a limited company?

18. Define a "Holding Company." What is the nature of the principal assets of a Holding Company?

19. What do you understand by a "Parent" Company?

20. State briefly the advantages and disadvantages of the "holding" system of control.

21. Tabulate the rules for the preparation of a consolidated Balance Sheet where the subsidiary is taken over in its entirety.

22. What do you understand by the "equity" holders?

EXERCISE XV (G)

1. The Rendick Manufacturing Company, Ltd., takes over the following assets and liabilities standing in the books of a private business on 1st January, 19..—

	£
Freehold Property	6,000
Plant and Machinery	2,000
Stock	7,600
Office Furniture	200
Sundry Debtors—	
A. Arnold	450
N. Norman	550
Cash in hand	500
Sundry Creditors—	
K. Kirkdale	700
N. Norton	500

The purchase consideration is £20,000, and it is discharged by the issue to the Vendor of—

10,000 Ordinary Shares of £1 each, fully paid.

1,000 5 per cent Preference Shares of £5 each, fully paid, and the balance in cash.

The company valued the Freehold Property at £5,500, the Stock at £7,000, and created a Provision for Bad Debts equal to 5 per cent of the Sundry Debtors. The cash balance of £500 is not taken over.

Show the Journal entries in the books of the Rendick Manufacturing Company, Ltd., on 1st January, 19.., to carry through the foregoing (including the cash paid, which is provided by means of an overdraft).

(*Faculty of Teachers in Commerce.*)

2. On 31st December, 19.., the Balance Sheet of Bartons, Ltd., was as follows—

	£	£		£	£
Capital—			*Fixed Assets —*		
Authorized:			Patents and Trade Marks at Cost . .	50,750	
200,000 Shares of £1 each. . . .	200,000		Plant and Machinery: At Cost . £29,312 Aggregate Depn. 7,638	21,674	
Issued:					72.424
120,000 Shares of £1 each, fully paid.		120,000	*Current Assets—*		
Less—			Stock . . .	15,306	
Profit and Loss A/c Balance .		30,156	Sundry Debtors £23,124 *Less* Provision for Bad Debts. 1,382	21,742	
		89,844	Balance at Bank .	227	
Current Liabilities—					37,275
Sundry Creditors . . .		24,725	*Capital Expenditure not written off—*		
			Preliminary Expenses . .		4,870
		£114,569			£114,569

A resolution for the voluntary winding up of the company having been passed, the assets (with the exception of the cash) were sold to another company. The purchasers agreed to take over the liabilities of the vendor company and to allot to the liquidator 40,000 fully-paid Ordinary Shares of £1 each. These arrangements were duly carried out.

Make the Journal entries necessary to record the transactions in the books of the purchasing company.

3. On the 31st March, 1947, George Ridley's Balance Sheet contained the following items—

Assets

Stock, £8,500; Debtors, £7,000; Bills Receivable, £1,500; Business Premises, £10,000; Plant and Machinery, £7,500; Office Fittings, £800; Motor Lorries, £1,200; Cash, £28; Bank, £536.

Liabilities and Capital

Sundry Trade Creditors, £8,200; Creditors for Expenses, £120; Loan from T. Jones, £1,000; Capital, £27,744.

On the same date, at the figures shown in the Balance Sheet, the business was converted into a private limited company called George Ridley, Ltd., with a nominal capital of 50,000 £1 Ordinary Shares. The purchase price of the business was £30,000, payable as to £25,000 in Ordinary Shares and the balance in cash. The Ordinary Shares were duly issued to Ridley at par, and 10,000 to other shareholders for cash at par. The purchase was then completed by the payment of £5,000 to Ridley at the end of April, 1947. The loan from T. Jones was repaid in June, 1947, together with £20 interest.

In addition to the balances arising from the foregoing, the following appeared in the Company's books at 31st March, 1948. You are required to prepare (*a*) a Trading Account, (*b*) a Profit and Loss Account, both for the year ended 31st March, 1948, and (*c*) a Balance Sheet at that date.

	£
New Plant and Machinery, purchased 30th September, 1947	2,500
New Motor Lorries, purchased 30th September, 1947	1,000
New Office Fittings, purchased 1st April, 1947	500
Cash in hand	52
Cash in Bank	2,264
Debtors	8,200
Creditors	4,315
Bills Receivable	1,200
Purchases (net)	22,000
Sales (net)	35,955
Carriage on Purchases	220
Carriage on Sales	188
Manufacturing Wages	3,200
Bad Debts	115
Office Salaries	720
Travellers' Salaries and Commission	630
Rates and Insurance (Factory, £231; Office, £89)	320
Office Expenses	478
Factory Lighting, Cleaning, Heating and Repairs	372
Motor Lorries' running Expenses for Deliveries	235
Preliminary Expenses of Company formation	800

Adjustments, 31st March, 1948 (not entered in books)—
Stock at 31st March, 1948, £9,600.

Depreciation—Plant and Machinery at 10 per cent per annum; Motor Lorries at 20 per cent per annum; Office Fittings at 4 per cent per annum—to include purchases of these assets.

Provide 5 per cent on Sundry Debtors for Bad Debts.

Expenses due but unpaid—Travellers' Commission, £120; Factory Repairs, £72; Office Expenses, £16.

Insurances paid in advance—Factory, £25; Office, £10.

Directors' Fees due, £200.

Write off one-half of Preliminary Expenses and one-third of Goodwill.

(Faculty of Teachers in Commerce.)

4. The books of the Autogowell Motor Co., Ltd., contained the following balances at the 31st March, 19..—

Debits	£	*Credits*	£
Land and Buildings	30,000	Ordinary Shares of £1	100,000
Plant and Machinery	20,000	Preference Shares of £1	50,000
Motor Vehicles	2,000	6% Debentures	20,000
Stock	74,000	Sundry Creditors	61,394
Sundry Debtors	35,000		
Formation Expenses	6,000		
Profit and Loss Account	64,000	*Note.* All the authorized Capital was issued.	
Calls in Arrear—			
Ordinary Shares	294		
Preference Shares	100		

It was resolved and subsequently approved by the Court that the Ordinary Shares should be reduced to 100,000 shares of 7s. 6d. each, fully paid. The Preference Shares were reduced to 50,000 shares of 15s. each, fully paid. The amount written off the capital was applied in writing off the Formation expenses and Profit and Loss Account and the balance in reducing the Stock-in-Trade.

You are required to show the Ledger Accounts giving effect to the above reduction and the Balance Sheet after it has taken place.

5. The following is the Balance Sheet of Structures, Ltd., as at 31st December, 19..—

		£			£	£
Capital—			*Fixed Assets*—			
Authorized and Issued:			Freehold Premises at Cost		40,000	
100,000 Shares of £1 each, fully paid		100,000	Plant and Machinery at Cost	£90,000		
Less:			Aggregate Depn.	40,000		
Profit and Loss Account		42,500			50,000	
						90,000
		57,500	*Current Assets*—			
Long-term Liability—			Stock		14,700	
6% Mortgage Debentures			Work in Progress		8,350	
(secured by a floating			Sundry Debtors		15,280	
charge)	£50,000		Cash at Bank		1,970	
Interest Outstanding	3,000					40,300
		53,000				
Current Liability—						
Sundry Creditors		19,800				
		£130,300				£130,300

The debentures are held by Erectors, Ltd., which company also holds 25,000 of the shares (such shares being acquired a year before at a cost of £17,500).

Agreement was reached between the two companies (necessary resolutions being duly passed) whereby Erectors, Ltd., absorbed Structures, Ltd., on the following terms—

(*a*) That Erectors, Ltd., take over the assets and liabilities of Structures, Ltd., as at 31st December, 19.., at their book figures, subject to reduction of Freehold Premises by £5,000, and Plant and Machinery by £2,500.

(*b*) That the capital and interest due on debentures be considered as part of the purchase consideration, such debentures to be cancelled on completion of the absorption.

(*c*) That the outside shareholders in Structures, Ltd., be allotted £1 shares in Erectors, Ltd., at par (but considered to be worth 25s. each), the shares in Structures, Ltd., to be taken as of the value of 10s. each.

Show (in Journal form) the entries required to close the books of Structures, Ltd., and to record the transaction in the books of Erectors, Ltd.

6. Z, Ltd., was formed to take over a trading business previously carried on by X and Y in partnership, accounts having been last prepared up to 30th September, 1948. Z, Ltd., received the certificate entitling it to commence trading on 1st June, 1949. No accounts of the business were prepared at that date, the company taking over all undistributed profits earned since the previous September.

State (*a*) how the amount of "pre-incorporation" profits would, in practice, be ascertained, and (*b*) how they should be dealt with by the Company when known. (*London Chamber of Commerce.*)

7. X and Y carried on their business as Engineers. They sold this business to the Rapid Engineering Co., Ltd., on 1st January, 19.., on which date their Balance Sheet showed the following Assets and Liabilities—

Assets

	£
Cash at Bank	300
Sundry Debtors	5,500
Bills Receivable	500
Stock in Trade	7,000
Plant and Machinery	3,500
Land and Buildings	3,000
Patterns and Models	1,000
Loose Tools, etc.	800

LIABILITIES

	£
Sundry Creditors	3,500
Provision for Bad Debts	500
Bills Payable	400
Loan on Mortgage of Land and Buildings	2,200

(X and Y's Capitals were in equal shares.)

The purchase price was agreed at £18,500, and the discharge by the company of all the liabilities as shown above, the company to have the benefit of any reserves.

This purchase price was paid to the vendors by the allotment of—

12,000 Ordinary Shares in the company of £1 each at par,

5,000 5½ per cent Cumulative Preference Shares of £1 each, and the balance in cash.

Show the details of the purchase in the company's Journal and Cash Book, and prepare the Balance Sheet after the allotment of shares to the partners has been completed. (*Faculty of Teachers of Commerce.*)

8. A B, Ltd., was registered with an authorized capital of £50,000, divided into 50,000 Ordinary Shares of £1 each, to acquire the business of A B as from 1st January, 1948. A B's capital in the business at the date of sale was £18,000, and the sale agreement provided that he should receive in consideration of the sale 21,000 fully paid shares of £1 each in the company, which took over all assets and liabilities.

The sale agreement also provided that A B should guarantee that the liabilities as shown in his Balance Sheet at the date of sale would not exceed the amount disclosed and that the debtors would realize the amount shown.

In addition to the shares issued to A B as fully paid, 10,000 shares were issued at par, and 10s. per share had been called up on them.

No entries in respect of the share transactions (other than the receipt of cash) had been put through the financial books of the company during the year ended 31st December, 1948, on which date the Trial Balance was—

TRIAL BALANCE	£	£
A B, Capital Account		18,000
Cash received for Shares		4,500
Plant and Machinery, as on 1st January, 1948	6,750	
Plant and Machinery, purchased 1st October, 1948	600	
Fixtures and Fittings	1,280	
Office and Management Salaries	2,780	
Rates and Insurance	496	
Repairs	207	
Freehold Premises	9,850	
Trading Account Balance		19,498
Bad Debts	92	
Bills Receivable and Payable	219	422
Sundry Debtors and Creditors	9,840	3,200
Factory Charges		850
Stock, 31st December, 1948	6,745	
Office Expenses, Stationery, etc	988	
Delivery Expenses	210	
Advertising	1,750	
Discount Account		318
Preliminary Expenses	396	
Cash at Bank	3,295	
Cash in hand	15	
Interim Dividend paid free of tax	1,275	
	£46,788	£46,788

You are required to prepare Profit and Loss Account for the year ended 31st December, 1948, and a Balance Sheet as on that date, taking the following into consideration—

(*a*) Plant and Machinery to be depreciated by 10 per cent per annum and Fixtures and Fittings by 5 per cent. Assume figures for original cost.

(*b*) Included in the item Repairs is an amount of £57 for repairs executed prior to 1st January, 1948, for which no provision had been made at the date the company purchased the business.

(*c*) Included in the item Bad Debts is a debt of £45. which was one of those guaranteed by A B.

(*d*) A Provision for Bad Debts to be created equal to 5 per cent of Sundry Debtors, and a reserve for income tax of £3,500.

(*e*) The amount appearing under the heading of Factory Charges is the amount charged in the Trading Account to cover rent, etc., of the factory.

(*f*) Preliminary Expenses: one-half to be written off. (*C.I.S.*)

9. A company, after a series of trading losses, resolved to reduce its capital of 60,000 shares of £1 each fully paid to 60,000 shares of 5s. each fully paid.

The Balance Sheet of the company prior to the reduction of capital was as follows—

BALANCE SHEET

	£		£
Capital—		Goodwill	10,000
Authorized and Issued:		Freehold Property	9,030
60,000 Shares of £1 each,		Plant and Machinery	19,240
fully paid	60,000	Stock	20,470
Premium on Shares Account	600	Sundry Debtors	21,290
Sundry Creditors	40,350	Cash	670
		Profit and Loss Account	20,250
	£100,950		£100,950

It was resolved to eliminate the Premium on Shares Account and to allocate the amount then available upon reduction of capital as follows—

(*a*) To write off the debit balance of the Profit and Loss Account.

(*b*) To write off entirely the value of Goodwill.

(*c*) To reduce the value of Plant and Machinery by £9,240.

(*d*) To reduce the value of the Stock by 20 per cent.

(*e*) To provide a Provision for Bad Debts of £1,500.

(*f*) To use any available balance to reduce the book value of the Freehold Property.

You are required to give the Journal entries necessary to give effect to the above and to show the Balance Sheet of the company after the reduction of capital. (*C.I.S.*)

10. A company, not wishing to deplete its cash resources but anxious to maintain its dividend history, decides to distribute profits by means of bonus shares.

(i) What are the advantages and disadvantages of this from the point of view of the company and the shareholders?

(ii) Illustrate your answer with the entries necessary when the distribution is one share of £1 for every ten shares of £1 each on an issued capital of £100,000. (*R.S.A.*)

11. A Company, with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £60,000, resolves to capitalize £40,000 of it by issuing to the shareholders 40,000 bonus shares of £1 each, fully paid, each shareholder

to receive one bonus share for every five shares held in the Company. Make the Journal entries required to record the transaction.

12. A Company with a nominal and issued capital of £150,000 in £1 shares 15s. per share paid, declares a bonus, out of the Reserve Fund, at the rate of $33\frac{1}{3}$ per cent on the paid-up capital, with the object of making the shares fully paid. Make the Journal entries required to record the transaction.

13. Prospect, Vaille & Co., Ltd., with a Nominal Capital of £100,000 in Ordinary Shares of £1 each, 16s. 8d. per Share paid, declared a Bonus out of the Reserve Fund at the rate of 20 per cent on the amount of Capital paid up, for the purpose of making the shares fully paid.

Give the journal entries required to record these transactions.

(Faculty of Teachers in Commerce.)

14. Set out below is the Balance Sheet as on 31st December, of Messrs. Black & White, who are equal partners—

BALANCE SHEET, 31st December

		£		£
Capital—			Land and Buildings	22,065
J. Black	£30,000		Machinery and Plant	12,800
W. White	20,000		Stock	10,760
		50,000	Sundry Debtors	4,250
Sundry Creditors		3,700	Cash at Bank	2,750
			Investments	1,075
		£53,700		£53,700

A limited Company with a nominal Capital of £100,000 in Ordinary Shares of £1 each, was formed to acquire and carry on the business.

The vendors guaranteed the Book Debts, and agreed to pay off the Creditors. The Company took over the whole concern with the exception of the Cash and investments, the purchase price being agreed at £60,000.

The vendors were paid, as to £50,000 in fully paid Ordinary Shares, and as to the balance in Cash.

The balance of the Share Capital was taken by the public and fully paid up.

Show the entries necessary to close the books of the old firm, and to open those of the new Company. *(London Chamber of Commerce.)*

15. The Birget Engineering Co., Ltd., purchased certain patents from Short & Sharp, under an agreement dated 30th June, at a cost of £40,000. £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully-paid £10 Ordinary Shares.

Including the shares allotted as fully paid to the vendors, the Company issued capital to the extent of £75,000, consisting of £50,000 in Ordinary Shares of £10 each (£1 on application, £4 on allotment, and £5 at the end of three months), and £25,000 in 5 per cent Preference Shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of three months).

Under the agreement with Short and Sharp, the patents passed to the Company on 9th July, which date was also the date of allotment.

All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 Calls in arrear on the Preference Shares. All cash was paid direct to the Company's Bankers.

Make the necessary entries in the books of the Company to give effect to the above transactions, and show how they would appear in the Company's first Balance Sheet. *(London Chamber of Commerce.)*

16. Black is in business. His assets, apart from goodwill, are valued at £30,000, and his liabilities are £2,000. White is in business, and his assets, apart from

goodwill, are valued at £20,000, and his liabilities are £1,500. Their profits for the last three years have been—

Black,	£600 first year;	£700 second year;	£800 third year.
White,	£400 ,, ;	£500 ,, ;	£600 ,,

They agree to sell their businesses to a Limited Company to be formed with a Nominal Capital of £100,000, divided into 60,000 5 per cent Preference Shares of £1 each and 40,000 Ordinary Shares of £1 each, the company taking over the assets and the liabilities. It is also agreed that Black and White shall each receive fully-paid Preference Shares in consideration of Goodwill (based on 2 years' purchase price of average of past 3 years' profits); the balance of purchase money to be paid in cash. The public subscribe and pay in full for 20,000 Preference Shares and 35,000 Ordinary Shares. The company paid preliminary expenses, £1,500. Show the Vendors' Accounts in the company's Ledger and the Balance Sheet of the company after these transactions have been completed.

(*Institute of Book-keepers.*)

17. The John Smith and Steel Nib Co., Ltd., was registered on and took over the premises of John Smith as from 1st January. John Smith sold his business to the Company upon the following valuation—

	£
Buildings (on Leasehold premises with 21 years to run from 1st January)	7,500
Machinery and Plant	11,650
Stock and Materials	3,872
Goodwill	10,000

The Company took over the Book-debts, which John Smith guaranteed, while he discharged the liabilities existing on 31st December last. The Company was registered with a nominal Capital of £80,000 divided into 80,000 shares of £1 each. Of these 25,000 fully paid shares were allotted to the Vendor as part consideration for the sale of the business, the balance being paid to him in cash. 20,000 shares were offered to, subscribed, and fully paid by the public, with the exception of 200 shares, on which 10s. per share had been paid, and which were forfeited during the year by resolution of the board of directors, owing to the non-payment of the final call of 10s. per share. The books were closed on 31st December, and Stock taken as on that date, amounting to £6,760.

You are required to write off one-twentieth of the value of the Buildings (to provide for the expiration of the Lease); 8 per cent of the Machinery and Plant (as Depreciation); one-fourth of the Preliminary Expenses; and 5 per cent from the Book-debts (as provision against Bad and Doubtful Debts); and then to prepare the Company's Trading Account and Profit and Loss Account for the year to 31st December, and Balance Sheet as on that day. The balances of the Ledger Accounts then, in addition to those resulting from the above transactions, were—

	£		£
Purchases	35,720	Office Expenses	1,006
Rent	76	Directors' Fees	200
Rates and Taxes	211	Sundry Debtors	12,380
Wages	8,241	,, Creditors	4,467
Salaries	917	Preliminary Expenses	400
Manufacturing Expenses	2,163	Bad Debts (of which £187 were in respect of the debts guaranteed by John Smith, and are payable by him)	206
Sales	49,798	Cash at Bank	3,599
Returned Purchases	311	Auditors' Fees	100
Discounts Allowed (of which £239 were allowed on debts, which were guaranteed in full by John Smith, and are payable by him)	1,033	Returned Sales	763
		Discounts Received	561

State what dividend you would recommend to be paid to the shareholders, and what balance of Profit and Loss Account would be carried forward to the next year. (*R.S.A.*)

18. A. Edwards & Co. sold their business to a Company for the sum of £220,000, to be paid for by 125,000 £1 Ordinary Shares and £95,000 in cash. Their assets consisted of—

	£
Freehold Land and Buildings, valued at	28,000
Machinery and Plant, etc., valued at	25,000
Book Debts, certified by the Auditors at	45,000
Stocks and Materials in progress, valued at	140,000
Advertising Plates, etc.	25,000
And their liabilities were—	
Trade Creditors	40,000
Loans on Mortgage	45,000

The Capital of the Company was £250,000, consisting of 125,000 Ordinary Shares of £1 each, and 125,000 6 per cent Preference Shares of £1 each, issued at 21s. a share.

The Preference Shares were subscribed by the public as follows—

On Application, 1s. per share; on Allotment, 2s. 6d. per share.

On First Call, 10s. per share; on Second Call, 7s. 6d. per share.

Make the Journal entries for the above transactions in the Company's books, and set out the Balance Sheet thereafter. (*Chartered Accountants.*)

19. A and O, trading in partnership, and sharing profits and losses in the proportions of two-thirds and one-third respectively, sold their business to J. S. & Co. Their Balance Sheet showed as follows—

	£		£
Creditors	3,750	Plant	2,000
A's Capital	6,000	Fixtures and Furniture	650
O's Capital	4,000	Stock	7,500
		Book Debts	2,500
		Bills Receivable	500
		Cash at Bank	600
	£13,750		£13,750

The purchasers agreed to give £2,000 for Goodwill, but would only take over the Stock at £7,000, and the Plant at £1,700. Make up the Capital Accounts of A and O, carrying out the terms of sale. (*Chartered Accountants.*)

20. A Limited Company was formed in October to acquire two private concerns as on the previous 30th June, adopting their trading from that date. The purchases were completed, and trading by the company commenced on 1st November. It was decided to keep the accounts of the two businesses separate until 30th June. The net profits at 30th June were found to be £2,100 and £3,600 respectively for the year. You are asked to advise the directors as to the amount of dividend they are justified, apart from financial considerations, in paying on the Company's total Capital of £50,000 in Ordinary Shares. What points for consideration would this involve? (*Chartered Accountants.*)

21. On the dissolution of the partnership of R, S, and T, the following is a summary of the state of their accounts—

Dr.	£	s.	d.	*Cr.*	£	s.	d.
Sundry Assets, which realized . . .	21,050	-	-	Sundry Liabilities .	5,500	-	-
T's Capital A/c, overdrawn . . .	750	-	-	S's Capital A/c. . .	7,000	-	-
Subject to Interest at 6% per annum, six months owing . .	22	10	-	R's Capital A/c. . .	11,000	-	-
				R's Balance of Undrawn profits, and Loan A/c. . .	2,100	-	-
				Subject to Interest at 6% per annum, six months owing .	63	-	-
	£21,822	10	-		£25,663	-	-

The partnership agreement provides for profits and losses to be shared as follows: R (a limited partner) one-fourth, S one-half, and T one-fourth. Adjust the partnership accounts, and show the position of each partner in the winding-up.

(*Chartered Accountants.*)

22. The X. L. Manufacturing Co., Ltd., has an authorized share capital of £25,000, divided into 10,000 6 per cent Preference Shares and 15,000 Ordinary Shares, all of £1 each. From the following, prepare Trading and Profit and Loss Account, and Balance Sheet as at 31st March, 19. .

TRIAL BALANCE

DEBITS	£	s.	d.	*CREDITS*	£	s.	d.
Freehold Land and Buildings . . .	8,650	-	-	Preference Share Capital	10,000	-	-
Fixed Plant and Machinery . .	5,920	-	-	Ordinary Share Capital	15,000	-	-
Coal and Coke . .	2,650	-	-	5 per cent Debentures .	6,000	-	-
Discounts . . .	851	-	-	Bank Overdraft . .	2,640	-	-
Goodwill . . .	5,000	-	-	Sundry Creditors . .	2,146	-	-
Purchases NET . .	11,920	-	-	Sales NET . . .	30,608	-	-
Loose Tools and Utensils	2,280	-	-	Reserve . . .	1,000	-	-
Stock previous 1st April	8,621	-	-	Profit and Loss A/c. previous 1st April .	974	-	-
Fixtures and Office Furniture . . .	250	-	-				
Sundry Debtors . .	8,240	-	-				
Bills Receivable . .	971	-	-				
Wages . . .	9,897	-	-				
Salaries and Commission	1,266	-	-				
Rent, Rates, Taxes, and Insurance . .	893	-	-				
Bank Charges . .	138	-	-				
Directors' Fees . .	200	-	-				
Debenture Interest, *less* Tax . . .	255	-	-				
Sundry Expenses . .	186	-	-				
Bad Debts . . .	98	-	-				
Cash in Hand . .	82	-	-				
	68,368	-	-		68,368	-	-

Depreciate Fixed Plant and Machinery at 5 per cent and Loose Tools and Utensils at $7\frac{1}{2}$ per cent. Provide 5 per cent of total debtors for discount. Final Stock was £8,102. Assume any other necessary figures. (*U.L.C.I.*)

23. The following details as to bad and doubtful debts are extracted from the books of Jacques & Co.—

31st December, 1946. Bad debts to be written off: C.D., £60; E.F., £95; both being totally irrecoverable. Five per cent is to be provided for bad and doubtful debts on £1,100, that being the amount owing by the debtors then outstanding.

31st December, 1947. Five per cent is to be provided for bad and doubtful debts on £2,500, that being the total amount owing by the debtors then outstanding.

31st December, 1948. Bad debts to be written off: G.H., £50; L.J., £60. Five per cent is to be provided for bad and doubtful debts on £1,500, that being the total amount owing by the debtors then outstanding.

You are required to show the necessary Ledger entries in the following accounts, viz.—

(1) The Bad Debts Account.
(2) The Provision for Bad and Doubtful Debts Account.

(*London Chamber of Commerce.*)

24. From the following Trial Balance of a company, prepare Trading, and Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet.

TRIAL BALANCE

DEBITS	£	s.	d.	*CREDITS*	£	s.	d.
Plant and Machinery	1,972	10	–	Capital (nominal 10,000 Shares of £1 each) Issued, 8,000, fully paid	8,000	–	–
Manufacturing Wages	3,496	12	–	Sundry Creditors	5,416	10	–
Salaries	1,596	10	4	Balance of P. & L. A/c.	743	6	–
Fixtures and Fittings	947	6	8	Bank Loan	1,000	–	–
Carriage Inwards	198	4	7	Purchases Returns	114	5	11
Carriage Outwards	215	6	11	Sales	24,141	14	5
Freehold Works	2,500	–	–				
Manufacturing Expenses	945	14	3				
Rates, Taxes, and Insurance	417	10	10				
Goodwill	3,000	–	–				
General Expenses	814	5	–				
Factory Fuel and Power	127	10	–				
Sundry Debtors	7,814	10	–				
Lighting and Heating	98	14	7				
Stable Expenses	247	6	11				
Stock, 1st Jan., 19..	3,417	8	9				
Horses and Carts	516	10	–				
Purchases	9,716	10	4				
Sales Returns	316	10	–				
Discount	92	4	1				
Bad Debts	148	9	6				
Interest and Bank Charges	47	10	–				
Cash at Bank	754	1	5				
Cash in hand	14	10	2				
	39,415	16	4		39,415	16	4

Adjustments—

(1) Stock, 31st December, 19.., £2,962 9s. 7d.

(2) Depreciation: Plant, etc., 10 per cent: Fixtures and Fittings, 5 per cent; Horses and Carts, £100.

(3) Provision for Bad Debts to be equal to 5 per cent of Sundry Debtors.

(4) Rates and Insurance unexpired on 31st December, £49.

(5) A Commission of 1 per cent on the Gross Profits to be provided for Works Manager.

(6) A Commission of 5 per cent of Net Profits (after charging the Works Manager's Commission) to be credited to the General Manager. Assume any other necessary figures. (*R.S.A.*)

25. Rose and Pink were in partnership sharing profits and losses in the proportions of 3 and 2. As from 1st April, 1948, they agreed to admit their manager (Lilley) as a partner with a one-sixth share of the profits. As Lilley was unable to introduce any cash it was arranged (*a*) that a Goodwill Account for £3,000 should be raised in the books of the firm and credited to Rose and Pink, and (*b*) that one-half of Lilley's share of the profits should be transferred to his Capital Account until this amounted to £2,000. The entries relating to the admission of Lilley had not been made in the books when the following Trial Balance as at 31st March, 1949, was extracted.

	£	£
Capital Accounts—		
Rose		6,000
Pink		3,000
Current Accounts—		
Rose		671
Pink	49	
Purchases	37,124	
Sales		45,691
Sundry Debtors and Creditors	8,640	3,973
Salaries and Wages	1,825	
Heating and Lighting	86	
Telephone and Insurance	59	
Office Expenses	113	
Bad Debts Provision, 31st March, 1948		325
Bad Debts written off	222	
Van Expenses	190	
Cash in hand	15	
Rent and Rates	475	
Stock, 31st March, 1948	6,291	
Postage and Stationery	102	
Advertising	433	
Vans	700	
Furniture and Fittings, 31st March, 1948	1,700	
Furniture and Fittings, Additions, 30th September, 1948	200	
Bank Interest	84	
Drawings—		
Rose	934	
Pink	660	
Lilley	259	
Bank Overdraft		501
	£60,161	£60,161

You are required to prepare the final accounts and Balance Sheet of the business and to take into consideration the following matters—

(*a*) Stock on hand on 31st March, 1949, amounted to £5,217.

(*b*) The item "Purchases" includes Furniture amounting to £65 bought for Rose's house.

(*c*) The Bad Debts Provision is to be made up to 5 per cent of the Sundry Debtors.

(*d*) Depreciation at the rate of 7½ per cent per annum on Furniture and Fittings and 20 per cent on Vans is to be provided for.

(*e*) £340 of the expenditure on Advertising relates to a new product; 25 per cent of this amount is, in accordance with an agreement, recoverable from the manufacturer.

(*f*) Interest on capital at the rate of 4 per cent per annum is to be allowed. (*R.S.A.*)

26. On 31st December, 1948, Smith and Brown enter into a joint adventure in the purchase and sale of a cargo of timber, profits to be shared equally. On that date Smith purchased the timber for £4,000 and drew a bill on Brown at 3 months' date for £2,000. Smith discounted the bill immediately for £1,977.

Smith paid on 1st January, 1949, dock and wharfage charges of £70.

On 1st June, 1949, Brown sold the whole cargo and received the full proceeds, £6,200, out of which he paid various sale expenses amounting to £110. On 30th June, 1949, accounts were exchanged and settlement by cheque was effected between the parties.

Set out the Joint Venture Account and show the accounts appearing in the books of Smith and Brown respectively. Interest is to be brought into account at 5 per cent per annum calculated in months. (*Institute of Book-keepers.*)

27. A firm of contractors kept, in a Contract Ledger, separate accounts for each contract.

On 31st December, 1948, the following were shown as being expenditure in connexion with a particular contract which had been commenced on 15th September, 1948—

	£
Materials purchased and delivered direct to contract site	5,863
Materials from general stores	978
Plant transferred from other contracts	1,250
Plant purchased for this contract	350
Wages	7,536
Direct Expenses	220
Proportion of Establishment and other charges	870
Depreciation of Plant	120

The contract price was £30,000 and the amount certified by the architect to 31st December, 1948, after deduction of 20 per cent retention money, was £12,000. The materials on the site and unused at that date were valued at £1,021.

You are required to prepare an account showing the profit on the contract to 31st December, 1948, and to state whether, in your opinion, the contractors would be justified in crediting their Profit and Loss Account with this profit, giving reasons for your opinion. (*R.S.A.*)

28. The business of Bruce Bros. & Co. was registered as a Limited Company with a nominal Capital of £400,000, divided into 4,000 shares of £100 each. 500 of these shares were issued as fully paid in part payment of the purchase price of the business; 3,200 of the remaining shares were allotted to the public, and fully called up; 25 4½ per cent Debentures of £1,000 each were also issued and taken up.

On 31st December, the following accounts remained open in the Company's books: Share Capital Account, £320,000; Fully Paid Shares Account, £50,000;

Land and Buildings, £282,000; Sundry Creditors, £18,485; Investments, £8,450; Cash, £6,200; Preliminary Expenses Account (Balance), £1,250; Goodwill Account, £15,000; Calls in Arrear, £525; Debenture Account, £25,000; Stock Account (31st December), £9,000; Plant Account, £78,580; Sundry Debtors, £28,000; Reserve Fund, £8,000; Profit and Loss Account (undistributed balance), £7,520. Prepare a Balance Sheet as on 31st December.

(*London Chamber of Commerce.*)

29. Chatenays, Ltd., was registered with a Nominal Capital of £200,000, comprising 100,000 each of Ordinary and 6 per cent Preference Shares of £1 each to purchase the old-established business of Abel Chatenay. The purchase price was agreed at £120,000, payable as to £30,000 in cash; £40,000 in Ordinary Shares of £1 each, and £50,000 in 6 per cent Preference Shares of £1 each. The company was to discharge the liabilities of the old firm. The balance sheet of Abel Chatenay as on the date of purchase was as follows—

SUMMARIZED BALANCE SHEET

	£		£
Capital	100,000	Freehold Works	36,000
Creditors	14,040	Machinery and Plant	37,860
Bank Loan	2,000	Sundry Debtors	18,764
		Stock	22,440
		Cash in hand	976
	£116,040		£116,040

The balance of both classes of shares was issued to the public and fully subscribed and paid up.

Prepare the accounts necessary to record the above purchase in the company's books, and give the initial balance sheet of the new company. (*R.S.A.*)

30. X is a sole proprietor of a retail stores. His balance sheet at the 31st December, 19.., was as follows—

BALANCE SHEET

		£		£
Creditors		3,000	Property	26,000
Capital Account	£39,500		Debtors	7,000
Profit	3,590		Stock	8,000
			Cash at Bank	2,590
	£43,090			
Drawings	2,500			
		40,590		
		£43,590		£43,590

His average profits for the past five years have been £3,500.

X decides to convert his business into a Private Limited Company.

(*a*) Sketch the opening balance sheet of the company with a nominal capital which you think is advisable, providing for Preliminary Expenses paid from Cash, and for the allotment to X (or his nominees) of shares for his capital in the business with additional shares for such goodwill as you think reasonable.

(*b*) Show how the estimated sum for Preliminary Expenses is arrived at.

(*Institute of Book-keepers.*)

31. Perry & Knowles, Ltd., are Brewers. At 31st December, after the year's working, their Trial Balance stood as follows—

	£	s.	d.
Licensed and other Property	526,672	18	4
Ordinary Share Capital	250,000	–	–
6% Preference share Capital (nominal £250,000)	249,610	–	–
Calls paid on Forfeited Shares	28	–	–
Goodwill Account	22,377	18	4
Formation Expenses	4,305	12	6
Premiums on, and alterations to, Leases	16,111	19	4
Wages	3,040	8	2
Brewing Materials	30,244	6	4
Mortgages on Licensed Property	3,850	–	–
Trade Defence Fund Contribution, 1st Jan. (half to be written off)	75	–	–
Contractors, on a/c. of Capital Alterations to Property	1,407	16	11
Commissions	234	16	–
Discounts	314	4	2
Reserve Fund	10,000	–	–
Ordinary Share Dividend (Interim, 23rd July)	3,750	–	–
Investments	9,611	18	4
Provision for Loss on Investments	800	–	–
Provision for Doubtful Debts	200	–	–

	£	s.	d.
4½% Debenture Stock (Interest payable 1st Jan. and 1st July)	100,000	–	–
Sundry Creditors	6,325	4	7
Sundry Debtors	28,714	12	1
Preference Share Dividends	14,227	15	4
Plant and Machinery	7,104	2	9
Barrels	3,106	8	10
Horses and Drays	2,114	12	2
Compensation Charges under the Licensing Act (half to be capitalized)	874	10	–
Cash in hand	34	3	11
Cash in Bank	3,797	8	9
Interest on Debenture Stock	2,137	10	–
Railway Claims written off	12	7	–
Income Tax	1,083	4	8
Directors' Fees	500	–	–
Furniture and Fittings	207	6	4
Amounts received on account of debts written off	112	16	8
General Trade Expenses	8,214	6	4
Profit and Loss Account (1st Jan.) *Cr.*	16,814	12	1
Sales, *less* Returns	49,743	2	11
Rent *Cr.*	5,614	13	–
Beer Duty paid, *less* amount charged out	2,823	2	8

The Stocks amounted to—

	£	s.	d.
Brewing Materials	7,973	2	4
Sundries	614	12	3

Carry forward £150 as unexpired Rates.

Write 15 per cent off Barrels; 9 per cent off Horses and Drays; 7½ per cent off Plant and Machinery; 5 per cent off Furniture and Fittings.

Prepare Profit and Loss Account and Balance Sheet. *(U.L.C.I.)*

32. The entire undertaking of an old company was purchased by a new limited company for the lump sum of £100,000 as on 1st July.

The old company's Balance Sheet on 30th June stood thus—

Liabilities	£	*Assets*	£
Subscribed Capital	110,000	Freeholds, cost	20,000
Creditors	3,050	Buildings, cost	15,000
Reserve for contingencies, extra Depreciation, etc.	1,950	Plant, after normal Depreciation	17,500
		Works in progress, per Cost Books	22,500
		Stocks, cost	20,000
		Book Debts, *less* Provision	14,250
		Cash at Bank	5,735
		Cash in hand	15
	£115,000		£115,000

How would you propose to deal with these figures in opening the books of the new company, no valuations of any kind having been made?

(*Chartered Accountants.*)

33. On account of heavy losses the Directors of a limited company obtain power to reduce its capital from 75,000 shares of £1 each, fully paid, to 75,000 shares of 15s. each, fully paid. Prepare the necessary Journal entry to give effect to this change of the company's capital.

34. Set out below is the Balance Sheet of a Limited Company as on 31st December, 19..

SUMMARIZED BALANCE SHEET

Capital	£	£		£
Nominal—			Patent A/c. at cost	114,663
100,000 Preference Shares of £1 each	100,000		Leasehold Works A/c.	3,820
100,000 Ordinary Shares of £1 each	100,000		Machinery and Plant A/c.	4,120
	£200,000		Sundry Debtors	1,241
Issued—			Stock on hand	4,921
74,720 Preference Shares of £1 each fully paid	74,720		Advertising Suspense A/c.	2,000
42,633 Ordinary Shares of £1 each fully paid	42,633		Preliminary Expenses A/c.	406
		117,353	Profit and Loss A/c.	1,482
Sundry Creditors		14,000	Cash in hand	28
Bank Overdraft		1,328		
		£132,681		£132,681

The company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction: (1) That the £1 Preference Shares be reduced to an equal number of fully-paid shares of 10s. each. (2) That the £1

Ordinary Shares be reduced to an equal number of fully-paid shares of 6s. 8d. each. (3) That the amount thus rendered available for the reduction of the assets be apportioned as follows: The Preliminary Expenses Account, Profit and Loss Account, and Advertising Suspense Account, to be written off entirely; £1,200 to be written off the Leasehold Works Account; £1,400 to be written off the Stock Account; 20 per cent depreciation to be written off the Machinery and Plant Account, and the balance available to be written off the Patents Account. Prepare a Balance Sheet giving effect to these proposals.

(*London Chamber of Commerce.*)

35. Messrs. Crane, Derrick, & Co., Ltd., Railway and General Contractors, whose head offices and works are at Porthampton, are engaged on two large contracts, as follows—

No. 1 Contract. Light Railway for the New Forest Light Railway Co., Ltd., at a contract price of £150,000.

No. 2 Contract. New Hotel for the Sussex Development Co., Ltd., at a contract price of £210,000.

No. 1 Contract was commenced in January. and

No. 2 Contract in March.

On 31st December the following balances stood in the books of the company in respect of these contracts—

No. 1 Contract.	Plant and Machinery .	£5,000	
,,	Purchases . . .	30,000	
,,	Wages and Salaries . .	43,000	
,,	Sundry Expenses . .	2,500	
,,	Cash received on account .		£60,000
No. 2 Contract.	Plant and Machinery .	3,500	
,,	Purchases . . .	80,000	
,,	Wages and Salaries . .	56,000	
,,	Sundry Expenses . .	1,500	
,,	Cash received on account .		£120,000

The value of materials on hand and work finished but not certified for was as follows: No. 1 Contract, £2,500; No. 2 Contract, £6,500. In the case of No. 1 Contract, 80 per cent of the amounts certified for was paid to the contractors, the remaining 20 per cent being retained until completion. In the case of No. 2 Contract the retentions amounted to £22,500.

Make out accounts in respect of each contract. Deal with the plant and machinery employed on the contracts in the way you consider best, stating your reason. Show the profit earned in respect of each contract, and say what you consider the Company would be justified in carrying to Profit and Loss Account in respect of them on 31st December. (*Chartered Accountants.*)

36. The X Mining Co., Ltd., having its registered office in London, remitted to its manager in West Australia during the year the sum of £5,000. At the end of the year it received from its managers returns showing expenditure as follows: Wages on Development, £1,000, Wages on Mining and Milling, £1,200, Salaries £500, Stores £1,500, Sundry Expenses £200. During the year stores to the amount of £500 had been used chargeable against development, and £700 chargeable against mining and milling. Bullion sold had produced £2,400, and the estimated amount of bullion unsold was £500. Show the Journal entries in the Head Office books. (*Chartered Institute of Secretaries.*)

37. The Wayside Boot Co., Ltd., was registered with a nominal capital of £50,000 divided into 10,000 Preference Shares of £1 each, and 800,000 Ordinary Shares of 1s. each.

On 31st December, a Trial Balance, containing the following Balances, was extracted from the books of the company.

	£	s.	d.		£	s.	d.
Ordinary Share Capital A/c.	35,820	–	–	Sales	131,276	–	–
Preference Share Capital A/c	10,000	–	–	Sales Returns	946	–	–
Pension Fund	4,980	–	–	Carriage	3,460	–	–
Goodwill A/c	5,000	–	–	Stock in hand (1st January)—			
Debenture Capital (100 5% Debentures of £50 each)	5,000	–	–	Finished goods	11,264	–	–
Pension Fund Investments	4,540	–	–	Materials and unfinished goods	8,457	–	–
Stable Expenses	421	–	–	Cost of Repairs to Machinery and Plant	293	–	–
Machinery and Plant A/c.	7,455	–	–	Debtors as per Sales Ledger	16,245	–	–
Transfer Fees received	1	10	–	Creditors as per Bought Ledger	11,747	–	–
General Expenses	939	–	–	Bad Debts written off	315	–	–
Cost of Trade Catalogues	256	–	–	Factory Wages	7,299	–	–
Bank Charges	17	–	–	Postage and Stationery	444	–	–
Company's contribution to the Pension Fund	500	–	–	Horses and Vans	946	–	–
Bonus paid to employees	763	–	–	Audit Fee and Legal Charges	274	–	–
Gas, Electricity, and Water	1,567	–	–	Rent, Rates, Taxes, and Insurance	1,173	–	–
Manager's Salary	1,500	–	–	Office Salaries	4,216	–	–
Purchases	97,651	–	–	Bills Receivable	1,931	–	–
Purchases Returns	1,243	–	–	Advertising	470	–	–
Interest paid on Debentures	238	10	–	Freehold Land and Buildings	18,442	–	–
Directors' Fees	250	–	–	Cash at Bank	3,259	–	–
Boxes and Packing	674	–	–	,, ,, (Pension Fund)	440	–	–
Bills Payable	2,162	–	–	Cash in hand	75	–	–
Discounts Allowed	1,251	–	–	Profit and Loss A/c (Debit Balance brought forward from last year)	1,236	–	–
Discounts Received	1,978	–	–				

Before closing the books, the following adjustments are necessary—

1. One month's carriage is owing and has not been passed through the books £472
2. Rent due to landlord but not provided for 150
3. Value of Unexpired Insurance Premium 197
4. Wages paid in advance 84
5. Provision to be created for Bad Debts 750
6. Write off the following depreciations—
   (*a*) Machinery and Plant 10%
   (*b*) Horses and Vans £146
   (*c*) Land and Buildings 2½%

The stock as on 31st December was valued as follows—

Finished Goods £13,241
Raw Materials and Unfinished Goods £5,192

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

(*London Chamber of Commerce.*)

38. The Wynne Co., Ltd., and the Garde Co., Ltd., agree to amalgamate and to promote a new company, to be registered as the "Wyngarde Co., Ltd.," with a capital of £400,000 in £1 shares, to take over their respective undertakings. The balances in the books of the respective companies at the date of amalgamation were as follows—

	Wynne Co.		Garde Co.	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	£	£	£	£
Issued Capital—				
Wynne Co., 150,000 Shares of £1 each		150,000		
Garde Co. 100,000 " "				100,000
6 per cent Debentures		50,000		
Goodwill	25,000		12,000	
Land and Buildings	75,230		42,650	
Plant and Machinery	35,400		18,745	
Stock-in-Trade	42,676		26,520	
Sundry Creditors		35,628		19,958
Sundry Debtors	48,524		23,234	
Bills Receivable	15,620		4,257	
Balances at Bank	18,902		1,234	
Reserve		20,000		5,000
Profit and Loss Account		5,724		3,682
	£261,352	£261,352	£128,640	£128,640

The consideration for the sale of the respective undertakings to the new company is—

Wynne Co.: the allotment of 150,000 fully paid shares of £1 each, a payment of £30,000 in cash and the discharge of the debenture debt at a premium of 5 per cent.

Garde Co.: the allotment of 100,000 fully paid shares of £1 each, and the payment of £10,000 in cash.

The old companies each pay their liquidation expenses, which amount to £600 for the Wynne Co. and £450 for the Garde Co. The formation expenses of the new company amount to £1,260.

The new company makes a public issue of 100,000 shares to provide additional working capital; the issue is fully subscribed and paid for in full on allotment. Close the books of the old companies and open the new company's books, drafting the first Balance Sheet.

39. The Ess Co., Ltd., had an issued capital of £95,000 consisting of 50,000 Ordinary Shares of £1 each, fully paid, and 45,000 7 per cent Cumulative Preference Shares of £1 each, fully paid.

The Tee Co., Ltd., had an issued capital of £30,000 consisting of 30,000 Ordinary Shares of £1 each, fully paid.

These two companies (both private companies) decided to amalgamate their businesses, and for this purpose a holding company, called The Unit Co., Ltd., was registered on the 1st July, 19.., with a capital of £150,000 in £1 shares. This company was to purchase all the Ordinary Shares of both the above companies. B., the Managing Director of the Ess Co., Ltd., and F., the Managing Director of the Tee Co., Ltd., each took up and paid for 1,500 shares.

The purchase was arranged on the following terms: The shareholders of the Ess Co., Ltd., received one £1 share, fully paid, in the Unit Co., Ltd., in exchange for each of their Ordinary Shares. The shareholders of the Tee Co., Ltd., received one and a half £1 shares, fully paid, in the Unit Co., Ltd., in exchange for each of their Ordinary Shares.

The expenses incidental to the formation of the Unit Co., Ltd., amounted to £2,000, and were paid out of cash.

Make the necessary entries in the books of the various companies to give effect to the arrangements outlined above, and draw up the opening Balance Sheet of the Unit Co., Ltd. (*London Association of Accountants.*)

40. With a view to reducing establishment expenses and generally to effect economy in working, the A Co., Ltd., was taken over by the B Co., Ltd., as from 1st January upon the following terms—

(i) The B Co., to assume the liabilities and take over the assets at book values.

(ii) The B Co. to discharge the debentures in A Co. at 105% by the issue of new debentures at 6% in the B Co.

(iii) The B Co. to pay the shareholders in A Co. 10s. per share, and to give three 10s. shares in the B Co. for every £1 share in the A Co. The 10s. shares were considered as being at par.

The following Balance Sheet of the A Co. was prepared as on 31st December, 19...

Liabilities	£	*Assets*	£
Nominal Capital: 50,000 shares of £1 each	50,000	Goodwill	35,000
		Freehold Land and Buildings	15,650
		Machinery and Plant	3,210
Issued: 47,500 shares of £1 each	47,500	Fixtures and Fittings	850
Five per cent Debentures	12,000	Sundry Debtors	10,990
Reserve Fund	15,000	Stock	4,660
Sundry Creditors	7,650	Investments	14,650
Profit and Loss Account, Balance at credit	4,960	Cash at Bank and in Hand	2,100
	£87,110		£87,110

Give the entries necessary to close off the books of the A Co., and show how the acquisition of the business would be recorded in the books of the B Co. (*Chartered Accountants.*)

41. The following was the Balance Sheet of the X Manufacturing Co., Ltd. (in which there were five shareholders with equal holdings), as on 31st December—

Liabilities	£	*Assets*	£
Nominal Capital: 20,000 Ordinary Shares of £1 each	20,000	Land and Buildings	2,300
		Plant and Machinery	2,108
		Furniture and Fittings	415
Issued: 18,000 Ordinary Shares of £1 each, fully paid	18,000	Stock	3,691
Sundry Creditors	5,674	Sundry Debtors	12,674
Reserve Fund	15,000	Investments	16,420
Profit and Loss Account, Balance at Credit	7,450	Cash at Bank	8,502
		Cash in hand	14
	£46,124		£46,124

It was decided to form a new limited company to take over the business as a going concern as on the above date, the new company bearing the same name, and having a nominal capital of £75,000 in ordinary shares of £1 each. The consideration for the sale of the business was 50,000 fully-paid shares in the new company, and the balance of the Profit and Loss Account in cash, the new company taking over all assets (as set out in the old company's Balance Sheet) with the exception of the investments; and undertaking to pay the sundry creditors and the liquidation expenses (estimated at £200), with the exception of £43 contributed by the old company.

The new company had fresh valuations made of the following assets, viz.:

Land and Buildings which were valued at £5,000;
Plant and Machinery " " £3,500; and
Furniture and Fittings " " £500

Draft the initial Balance Sheet of the new company as on 1st January. Give the entries necessary to close the books of the old company and state what each shareholder would receive. Investments were not realized, but were distributed *pro rata* to the shareholders. (*Chartered Accountants.*)

42. The Balance Sheets of the A. Co., Ltd., and the D Co., Ltd., at 31st December were as follows—

Liabilities	A. Co. £	D. Co. £	*Assets*	A. Co. £	D. Co. £
Ordinary Capital in £1 shares	50,000	20,000	Land and Buildings	40,000	
Preference Do.	50,000		Machinery	60,000	
Debentures	25,000	5,000	Patent Rights		20,000
Creditors	5,000	1,000	Debtors	20,000	5,000
Reserve	10,000		Investments	10,000	
Profit and Loss Account, Balances at Credit	10,000	1,000	Bank	20,000	2,000
	£150,000	£27,000		£150,000	£27,000

The Ordinary Shares of the A Co., Ltd., were quoted at 30s. per share, and the Preference Shares at par. They agreed to buy the Patent Rights of the D Co., Ltd., for £40,000, the book debts at their face value, and to give £10,000 for the goodwill. The consideration was to be the allotment of 20,000 Ordinary Shares and 25,000 Preference Shares—and the D Co., Ltd., was put into liquidation accordingly.

Make the necessary Journal entries in the books of the A Co., Ltd., and show the Balance Sheet after the purchase. (*Chartered Accountants.*)

43. The following is the Balance Sheet of the Bailey Manufacturing Co., Ltd., on 30th June—

Liabilities	£	*Assets*	£
Issued Capital 150,000 Ordinary Shares of £1 each	150,000	Goodwill	20,000
Mortgage	40,000	Freehold Land and Buildings	65,000
Creditors	20,000	Freehold Cottages	10,000
Bills Payable	6,000	Leasehold Property	5,000
Bank Overdraft	25,000	Plant and Machinery	50,000
Superannuation Fund	5,000	Loose Tools	7,000
Reserve for Income Tax	10,000	Fixtures and Fittings	10,000
,, ,, C. P. Tax	1,750	Motor Vehicles	8,000
Reserve Account	10,000	Stock	40,250
Profit and Loss Accoun	20,000	Debtors	35,000
		Investments	12,000
		Suspense Account	11,500
		Inland Revenue Reclaim	14,000
	£287,750		£287,750

The company decided to wind up and sell the assets to a syndicate on the basis of the Balance Sheet, subject to the following increases—

Freehold Land and Buildings, 50%; Freehold Cottages, 75%; Plant and Machinery, 100%; Stock, 100%; Loose Tools, 100%; Motor Vehicles, 25%; Fixtures, 20%.

The leasehold property was taken over at face value; the investments at the market price of the day, £10,000; the suspense and goodwill accounts at nil; and the amount due from the Inland Revenue, £13,000. Five per cent was deducted from Debtors as a provision for bad debts. The liabilities were all taken over as they stood, except that shareholders were to receive a dividend of 10% free of tax.

The syndicate were to pay the members of the Bailey Co. by shares in a new company formed by the syndicate.

You are required to draw up a Balance Sheet, showing how the figures would appear in the Balance Sheet of the syndicate and also state the amount of shares the members of the Bailey Co. would receive in the syndicate for each £1 share in the Bailey Co. (*Incorporated Accountants.*)

CHAPTER XVI

MANUFACTURING AND WORKING ACCOUNTS; STOCK CONTROL

SINCE the manufacturing and selling departments of a business are kept separate, it is advisable that a manufacturer's accounts be divided in such a manner as to afford him the greatest possible information. Where only one commodity is being produced, a Manufacturing Account will serve a useful purpose; but where numerous articles are being manufactured that have little or nothing in common, a system of Cost Accounts must also be designed, in order that the cost of each separate article may readily and accurately be ascertained.

MANUFACTURING ACCOUNTS

Definition. A Manufacturing Account is an account drawn up to ascertain the prime cost of a commodity (or commodities) that has (or have) been manufactured. It deals, therefore, *only* with raw materials, the charges thereon, and *direct* manufacturing expenses such as productive wages. "Manufacturing Account" is a general designation, specific terms being in use in certain cases.

Prime Cost, Overhead or Oncost, Cost of Production. These terms, when used by accountants, have not always the same signification. **Prime Cost** is generally taken to mean the cost of raw materials, *plus* direct charges thereon, *plus* productive wages. **Overhead** is a term used to denote all expenses consequent upon or incidental to production and distribution. These expenses, together with the "loading" or profit, are added to the prime cost in order to ascertain the selling price. Selling price is, therefore, prime cost + overhead + profit. Overhead is divided into two or more classes, factory and general, or production, selling, distribution, and administration. **Factory Oncost** or Works Overhead includes all expenses directly or indirectly connected with production, viz. Rent, Rates and Taxes of factory; Motive Power, Gas, Fuel, Water, Lighting and Heating of factory; Patent Fees, Wayleaves, and Royalties on manufacture; Wages and Salaries of foremen, timekeepers, watchmen, storekeepers, etc.; Repairs, Renewals and Depreciation of Machinery, Tools, etc.; Interest on Capital outlay on Plant, Machinery, Tools, Land, and Buildings. **General Oncost or Overhead** includes all selling, distribution, and administration expenses. In such cases, prime cost plus factory or works overhead is termed factory cost, or, as many accountants then prefer to call it, **cost of production.** Selling price is, therefore, cost of production (prime cost + works overhead) + general overhead + profit.

For examination purposes—and it is a valuable practical method at the same time—it is advisable to prepare a Manufacturing Account on a strictly "prime cost" basis. The account would then be comprised of the following components of cost of manufacture only—

(*a*) Raw material.
(*b*) Carriage on raw material purchased.
(*c*) Manufacturing wages.

By limiting the items in a Manufacturing Account to those of first cost, it is possible to make a comparison of each year's gross profit on the basis of the turnover of the business. Prime cost bears a definite relation to turnover, i.e. as the volume of trade varies so also does prime cost; it inevitably moves in sympathy with turnover.

Overhead items do not so change. Fixed charges remain constant whatever turnover figures may be. For example, factory rent at £500 per annum will remain at that amount despite movement in the turnover of the business.

The object of the inclusion of overhead details in the cost of manufacture is to ensure that the selling price shall yield a sufficient margin of gross profit to cover all expenditure consequent upon, and incident to, the business of manufacture.

The only danger of "loading" the cost of manufacture with overhead details is that the resultant "sale price" may retard turnover. Under competitive conditions of modern commerce, the basis of cost, determining the sale price, must be so regulated that no barrier to turnover is raised. In any case, whatever items are included in the Manufacturing Account, a uniform method must be adopted if comparison of results is desired.

The following *pro forma* examples will serve to illustrate the subject—

Example 1.

MANUFACTURING ACCOUNT

(*a*) PRIME COST ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Stock—Raw Materials	6,500	16	6	By Balance (Prime Cost of Goods Manufactured) transferred to Account (*b*)	44,877	7	10
,, Purchases	22,520	5	8				
	29,021	2	2				
Less Closing Stock	5,025	12	3				
Stock of Raw Materials Consumed	23,995	9	11				
,, Stock of Partly Manufactured Goods	8,056	2	10				
	32,051	12	9				
Less Closing Stock	10,350	11	7				
	21,701	1	2				
,, Carriage and Freight	425	14	3				
,, Manufacturing Wages	22,750	12	5				
	£44,877	7	10		£44,877	7	10

Dr (*b*) Cost of Production Account Cr.

	£ s. d.		£ s. d.
To Prime Cost of Goods Manufactured as per Account (*a*)	44,877 7 10	By Proportion of Factory Overhead on Partly Manufactured Goods (£10,350 11s. 7d.) carried forward	1,850 9 4
" Proportion of Factory Overhead on Partly Manufactured Goods (£8,056 2s. 10d.) brought forward	1,575 12 4	" Balance (Cost of Production of Goods Manufactured) carried to Trading Account . . .	53,455 3 4
" Factory Overhead			
Rent, Rates, Taxes, and Insurance . . .	1,200 11 6		
Gas, Fuel, Water, Lighting and Heating .	1,250 4 9		
Patent Royalties . .	325 10 6		
Wages and Salaries .	1,825 3 10		
Repairs, Renewals, and Depreciation of Tools and Machinery, etc .	1,750 5 4		
Interest on Capital Outlay in Plant and Machinery, Tools, Land and Buildings . .	2,500 16 7		
	£55,305 12 8		£55,305 12 8

Dr. TRADING ACCOUNT Cr.

	£ s. d.		£ s. d.
To Stock of Manufactured Goods at start . .	5,276 5 9	By Sales . £72,255 17 1 *Less* Returns . 2,016 6 10	70,239 10 3
" Manufacturing A/c— Cost of Goods manufactured as per Account (*b*)	53,455 3 4	" Stock of Manufactured Goods at finish . .	5,803 13 10
" Balance (Gross Profit) .	17,311 15 –		
	£76,043 4 1		£76,043 4 1

Dr. PROFIT AND LOSS ACCOUNT Cr.

	£ s. d.		£ s. d.
		By Trading A/c	17,311 15 –

The Manufacturing Account is sometimes made up in *one* account, and in a slightly different form, as shown at top of p. 746.

Gross Profit or Loss on Production. In Example 1 it will be noticed that the goods produced have been transferred from the Manufacturing Account to the Trading Account *at cost price*. This is the usual practice, the theory being that the Manufacturing Department exists solely for the benefit of the Selling Department, and that the latter is, therefore, under an implied obligation to take over the factory output at actual cost, whether such cost be higher or lower than current trade prices. In such cases the Manufacturing Account will show neither profit nor loss. Many accountants contend against this practice, maintaining that the Manufacturing Department should be put on a business basis, i.e. that its

Dr. MANUFACTURING ACCOUNT *Cr.*

		£ s. d.		£ s. d.
To Stocks--Raw Materials		6,500 16 6	By Amount transferred to Trading A/c (Cost of Goods Manufactured)	53,455 3 4
,, Purchases		22,520 5 8		
		29,021 2 2		
Less Closing Stock		5,025 12 3		
,, Stock of Raw Materials Consumed		23,995 9 11		
,, Stock of Partly Manufactured Goods		8,056 2 10		
		32,051 12 9		
Less Closing Stock		10,350 11 7		
		21,701 1 2		
To Carriage and Freight on Raw Materials		425 14 3		
,, Manufacturing Wages		22,750 12 5		
Prime Cost of Production		44,877 7 10		
Add Factory Overhead	£8,852 12 6			
+ Proportion on Partly Manufactured Goods b/f	1,575 12 4			
	10,428 4 10			
— Proportion on Partly Manufactured Goods c/f	1,850 9 4			
		8,577 15 6		
Factory Cost of Production		£53,455 3 4		£53,455 3 4

output should be charged to the Selling Department *at current trade prices* irrespective of cost. In other words, the Selling Department ought not to be placed at a disadvantage by having to take over goods at a price higher than that at which they could be actually purchased. Special allowance should also be made in the case of any of the goods manufactured not being readily marketable; otherwise, the factory profit on these goods is likely to remain an "anticipated" one. In these cases, the Manufacturing Account will show a balance, which will represent either profit or loss on production, and will be transferred to Profit and Loss Account. By this means it will be seen whether the Manufacturing Department is a profitable one; and if not, it can be closed down, unless cost of production can be lowered by strict supervision and economies to cheapen production. The gross profit or loss on production must not be confused with the gross profit or loss on sales, as the two are quite different. The following example, worked according to the above method, will show clearly the principles involved—

MANUFACTURING ACCOUNT
FOR THE YEAR ENDING 31ST DEC., 19..

Dr.		£	s.	d.	*Cr.*	£	s.	d.
To Stocks—Raw Materials		6,500	16	6	By Trade Price of Goods manufactured, transferred to Trading A/c	58,981	13	10
,, Purchases		22,520	5	8				
		29,021	2	2				
Less Closing Stock		5,025	12	3				
,, Stock of Raw Materials Consumed		23,995	9	11				
,, Stock of Partly Manufactured Goods		8,056	2	10				
		32,051	12	9				
Less Closing Stock		10,350	11	7				
		21,701	1	2				
To Carriage and Freight on Raw Materials		425	14	3				
,, Manufacturing Wages		22,750	12	5				
Prime Cost of Production		44,877	7	10				
Add Factory On-cost	£8,852 12 6							
+ Proportion on Partly Manufactured Goods b/f	1,575 12 4							
	£10,428 4 10							
— Proportion on Partly Manufactured Goods c/f	1,850 9 4	8,577	15	6				
Factory Cost of Production		53,455	3	4				
To Balance (*Gross Profit on Production*)		5,526	10	6				
		£58,981	13	10		£58,981	13	10

TRADING ACCOUNT

Dr.	£	s.	d.	*Cr.*		£	s.	d.
To Stock of Manufactured Goods at start	5,276	5	9	By Sales	£72,255 17 1			
,, Manufacturing A/c (Trade Price of Goods produced)	58,981	13	10	*Less* Returns	2,016 6 10	70,239	10	3
	64,257	19	7					
Less Stock of Manufactured Goods at finish	5,803	13	10					
Prime Cost of Sales	58,454	5	9					
To Balance (*Gross Profit on Sales*)	11,785	4	6					
	£70,239	10	3			£70,239	10	3

PROFIT AND LOSS ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
				By Manufacturing A/c	5,526	10	6
				,, Trading A/c	11,785	4	6
					£17,311	15	–

Example 2. From the following particulars prepare Manufacturing Account (showing cost of pig iron produced), and Trading Account for the year ended 31st December—

	£	s.	d.
Stocks at 1st January—			
Pig Iron	28,401	16	8
Limestone	301	16	9
Coal and Coke	1,729	15	5
Iron Ore	1,628	10	4
Purchases during Year—			
Coal and Coke	29,173	14	2
Limestone	4,016	2	11
Iron Ore	16,415	11	2
Sales of Pig Iron during year	102,617	13	6
Expenses during the year—			
Furnace Wages	9,266	10	8
Carriage Inwards	2,427	9	5
Repairs and Renewals of Furnaces	2,906	14	2
Stocks at 31st December—			
Pig Iron	38,153	12	8
Limestone	415	6	7
Coal and Coke	1,841	11	3
Iron Ore	1,841	11	5

It must first be ascertained how much of each kind of raw material has been used in the manufacture of pig iron. This information is obtained from the Ledger Account of each raw material, as follows—

Dr. IRON ORE *Cr.*

		£ s. d.			£ s. d.
19..			19..		
Jan. 1	To Balance	1,628 10 4	Dec. 31	By Stock c/d	1,841 11 5
Jan.-Dec.	„ Purchases	16,415 11 2	„ 31	„ Balance (amount used) transferred to Manufacturing A/c	16,202 10 1
		£18,044 1 6			£18,044 1 6
19..					
Jan. 1	To Balance b/d	1,841 11 5			

Dr. LIMESTONE *Cr.*

		£ s. d.			£ s. d.
19..			19..		
Jan. 1	To Balance	301 16 9	Dec. 31	By Stock c/d	415 6 7
Jan.-Dec.	„ Purchases	4,016 2 11	„ 31	„ Balance (amount used) transferred to Manufacturing A/c	3,902 13 1
		£4,317 19 8			£4,317 19 8
19..					
Jan. 1	To Balance b/d	415 6 7			

Dr. COAL AND COKE *Cr.*

		£ s. d.			£ s. d.
19..			19..		
Jan. 1	To Balance	1,729 15 5	Dec. 31	By Stock c/d	1,841 11 3
Jan.-Dec.	,, Purchases	29,173 14 2	,, 31	,, Balance (amount used) transferred to Manufacturing A/c	29,061 18 4
		£30,903 9 7			£30,903 9 7
19..					
Jan 1	To Balance b/d	1,841 11 3			

It is now possible to construct the Manufacturing and Trading Accounts, which are as follows—

Dr. MANUFACTURING ACCOUNT *Cr.*

		£ s. d.			£ s. d.
19..			19..		
Dec. 31	To Amounts Consumed—		Dec. 31	By Transfer to Trading A/c (Cost of Pig Iron produced)	63,767 15 9
	Iron Ore	16,202 10 1			
	Limestone	3,902 13 1			
	Coal and Coke	29,061 18 4			
	,, Furnace Wages	9,266 10 8			
	,, Carriage Inwards	2,427 9 5			
	,, Repairs and Renewals of Furnaces	2,906 14 2			
		£63,767 15 9			£63,767 15 9

Dr. TRADING ACCOUNT *Cr.*

		£ s. d.			£ s. d.
19..			19..		
Jan. 1	To Stock of Pig Iron	28,401 16 8	Dec. 31	By Sales of Pig Iron	102,617 13 6
Dec. 31	,, Amount transferred from Manufacturing A/c (Cost of Pig Iron produced)	63,767 15 9	,, 31	,, Stock of Pig Iron	38,153 12 8
,, 31	,, Balance (Gross Profit)	48,601 13 9			
	£	140,771 6 2		£	140,771 6 2

The Manufacturing Account may be drawn up in tabular form, as on the next page.

Sub-Manufacturing Accounts. As previously mentioned, the title "Manufacturing Account" is only a general description. In many businesses sub-manufacturing accounts are prepared, being designated by the name of their particular process or stage of manufacture.

MANUFACTURING ACCOUNT

For the Year Ending 31st December, 19..

Dr.	Iron Ore	Limestone	Coal and Coke	Total		Cr.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.
To Production—					By Transfer to Trading Account (Cost of Pig Iron produced) .	63,767 15 9
Stocks, 1st January .	1,628 10 4	301 16 9	1,729 15 5			
Add Purchases . .	16,415 11 2	4,016 2 11	29,173 14 2			
	18,044 1 6	4,317 19 8	30,903 9 7			
Less Stocks, 31st Dec. .	1,841 11 5	415 6 7	1,841 11 3			
Materials Consumed .	16,202 10 1	3,902 13 1	29,061 18 4	49,167 1 6		
„ Carriage Inwards . .				2,427 9 5		
„ Furnace Wages . .				9,266 10 8		
„ Repairs and Renewals of Furnaces . . .				2,906 14 2		
				£63,767 15 9		£63,767 15 9

Note. Other terms for the above Account are: "Furnaces Account," "Working Account," "Pig Iron Production Account."

Example 3.

EXCELSIOR COTTON MILLS, LTD.

SPINNING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Cotton	87,352	3	2	By Sale of—			
,, Brokerage, Charges, etc.	303	18	6	Yarns	6,985	14	2
,, Freight and Carriage	1,315	3	2	Waste	2,750	10	5
,, Wages and Salaries	18,116	5	9	Sundries	401	17	8
,, Coals	2,068	15	5	,, Balance—transferred to Trading A/c	106,022	14	10
,, Oil, Tallow, etc.	326	9	6				
,, Gas, Electric Light, and Water	295	14	11				
,, Cards, Ropes, Roller Leather and Cloth	804	15	7				
,, Skips, Bobbins, and Skewers	215	16	4				
,, Brushes, Starch, and Banding	317	12	8				
,, Strapping and Laces	142	6	7				
,, Packing, Paper, and Twine	328	3	11				
,, Rates, Taxes, and Insurance	471	13	2				
,, Mill Charges and Sundry Stores	227	10	5				
,, Horse and Stable Expenses	274	5	11				
,, Repairs to Buildings, Engines, Boilers, Gearing, etc.	1,365	12	8				
,, Depreciation of Plant and Machinery	2,234	9	5				
	£116,160	17	1		£116,160	17	1

WEAVING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	£	s.	d.		£	s.	d.
To Purchase of Yarns, etc.	4,027	3	10	By Sale of Waste	127	13	2
,, Freight and Carriage	795	13	6	,, ,, Sundries	98	14	5
,, Wages and Salaries	29,650	7	4	,, Balance—Transfer to Trading A/c	41,545	18	5
,, Coals	1,058	13	6				
,, Tallows, Oils, Waste, etc.	185	11	4				
,, Gas, Electric Light, and Water	138	7	5				
,, Shuttles, Pickers, Picking Bands, etc.	516	8	3				
,, Reeds, Combs, and Healds	325	11	9				
,, Brushes and Sundries	99	15	2				
,, Strapping and Laces	87	16	7				
,, Skips, Bobbins, and Skewers	107	4	5				
,, Flour and Sizing Materials	1,628	5	10				
,, Rates, Taxes, and Insurance	245	9	2				
,, Mill Charges and Sundry Stores	206	5	4				
,, Horse and Stable Expenses	97	11	3				
,, Repairs to Buildings, Engines, Boilers, Gearing, etc.	495	6	9				
,, Depreciation of Plant and Machinery	2,106	14	7				
	£41,772	6	–		£41,772	6	–

TRADING ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19..

Dr.		£ s. d.	Cr.		£ s. d.
To Stocks of Cloth, 1st Jan.—			By Sales of Cloth—		
At Mills	£41,306 18 5		Grey .	£60,516 14 2	
At Warehouse .	72,617 1 8		White .	162,726 13 8	
At Bleachers and Dyers	8,340 1 3		Dyed .	13,087 3 5	
		122,264 1 4			236,330 11 3
„ Goods purchased . .		8,716 12 8	„ Sales of Bought Goods .		9,916 13 8
„ Bleaching, Dyeing, and Printing . . .		28,502 3 11	„ Stocks of Cloth, 31st Dec.—		
„ Carriage . . .		345 13 9	At Mills	£40,598 12 7	
„ Packing		265 14 6	At Warehouse .	74,503 2 5	
„ Spinning A/c amount trans. .	£106,022 14 10		At Bleachers and Dyers	10,404 1 3	
Weaving A/c—amount trans. .	41,545 18 5				125,505 16 3
		147,568 13 3			
Balance (Gross Profit) .		64,090 1 9			
		£371,753 1 2			£371,753 1 2

Discounts on Purchases. In accounts such as the foregoing Spinning and Weaving Accounts, and also in others, the Discounts on Purchases are often credited to the Manufacturing Department, or, if there is more than one, apportioned between them. Such discounts are in effect a reduction of the Purchases to the absolute *net* figures, and hence appear in the Manufacturing Account either as a separate credit or as a deduction from the Purchases themselves.

Combined Manufacturing and Trading Account. In some cases, the Manufacturing and Trading Accounts are merged into

Example 4.

THE OUTHORN BRICK WORKS, LIMITED

MANUFACTURING AND TRADING ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19..

Dr.		£ s. d.	Cr.		£ s. d.
To Coal		1,645 19 6	By Stock of Bricks, 31st Dec.	£673 14 8	
„ Stores		287 4 10	„ Brick Sales for year .	9,506 10 5	
„ Rations		796 13 2			
„ Wages		2,851 10 6		10,180 5 1	
„ Stable Expenses . .		10 5 4	*Less*		
„ Rent		150 – –	Stock of Bricks, 1st Jan.	957 1 2	
„ Carriage Inwards . .		463 9 8			9,223 3 11
„ Repairs and Renewals .		257 16 7			
„ Medical Fees . . .		10 10 –			
„ Depreciation—					
Plant . .	£93 4 8				
Machinery .	187 13 6				
Kilns . .	216 9 11				
Pumping Plant .	10 7 2				
Railway Siding .	14 15 4				
		522 10 7			
„ Balance (Gross Profit) .		2,227 3 9			
		£9,223 3 11			£9,223 3 11

one account under the heading of either "Manufacturing and Trading Account" or simply "Manufacturing Account," the balance of which is called the gross profit, and is transferred to the Profit and Loss Account. In such cases, Depreciation of Plant will be entered in the Manufacturing Account instead of in the Profit and Loss Account.

Prime Cost of Goods Sold. When looking at a Trading Account prepared in the ordinary form, we may think it difficult to arrive at the cost value of the goods actually sold, owing to the difference in the stocks. If the stocks at commencement and close of the trading period were exactly the same, they could be ignored; one would balance the other, and they would not affect the calculation. But, when the opening and closing stocks differ by a considerable sum the difference must be taken into consideration. A moment's reflection, however, will show that the stocks can quite properly be merged in the purchases. Stock at the commencement is really *last* year's purchases unsold; stock at the end is really *this* year's purchases unsold. The Trading Account is, therefore, prepared in a slightly different form. The initial stock is added to the purchases, and the final stock deducted from them, and thus we arrive at the prime cost of the goods actually sold during the trading period under review.

WORKING ACCOUNTS

Definition. A Working Account is an account drawn up to ascertain the working, or gross, profit arising from some industrial enterprise, either productive or non-productive. In productive enterprises, such as mines, quarries, plantations, newspapers, etc., a Working Account corresponds very closely to the Cost of Production Account of a manufacturer. In non-productive enterprises, such as canals, steamships, railways, hotels, etc., a Working Account is similar to a Revenue Account or Income and Expenditure Account, and, sometimes, also to a Trading Account. The term "Working Account" is merely a general designation, specific titles being in use in certain cases.

It is impossible to be exhaustive, but the following selected examples will amply repay the student's careful attention.

Example No. 2 is also called a "Crop Cost Account." Similar accounts are drawn up on tea, coffee, cocoa, cotton, and rubber plantations.

Example 1—

THE WETTER GOLD MINING COMPANY, LTD.

Dr. MINE WORKING ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Ore Extraction—				By Bull on A/c	257,356	14	6
Expenses of Mining	43,278	9	2	,, Tailings A/c	2,306	4	10
,, Reduction of Ore—							
Milling	17,605	13	7				
Concentrating	10,987	6	8				
Cyaniding	45,703	12	10				
Tramming	5,196	8	3				
,, Concession Rents paid	700	–	–				
,, Royalties paid	3,617	16	5				
,, Prospecting Expenses	1,134	2	6				
,, Claim Expenses	1,856	11	9				
,, Wages at Mine	4,178	13	6				
,, General Charges at Mine	2,615	4	11				
,, Mint and Bank Charges on Bullion	1,562	10	4				
,, Depreciation of Works, Machinery and Plant,	5,956	13	7				
,, Balance (Gross Profit)	115,269	15	10				
	£259,662	19	4		£259,662	19	4

Example 2—

REVALLA TOBACCO PLANTATIONS, LTD.

Dr. PLANTATION WORKING ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Plantation Wages—				By Proceeds of Sale of Tobacco	62,916	15	3
Planting	13,308	15	5				
Manufacturing	4,622	3	6				
,, Plantation Salaries—							
European Staff	7,234	6	7				
Native Overseers	2,138	5	8				
Native Watchmen	942	13	6				
,, Coolie Expenses (Brokerage, Passage Money, etc.)	3,024	2	11				
,, Hospital Working Expenses	1,035	13	5				
,, Transport Expenses	1,041	5	3				
,, General Plantation Expenses	1,017	4	8				
,, Stable Expenses	625	8	6				
,, Loss (by death) of Advances to Coolies	540	3	6				
,, Wastage of Live Stock (Ponies, Bullocks, etc.)	526	12	4				
,, Commission on Sale of Tobacco	3,316	9	2				
,, Repairs, Renewals, and Depreciation—							
Railway	156	8	3				
Steam Launch, Lighters, etc.	391	15	1				
Loose Tools	350	10	4				
Pier, Wharf, etc.	284	9	5				
Ways, Roads, etc.	1,430	11	2				
Buildings, etc.	3,608	15	4				
,, Balance (Gross Profit)	17,321	1	3				
	£62,916	15	3		£62,916	15	3

Example 3—

THE "DAILY BUGLE" NEWSPAPER COMPANY, LTD.

Dr. PRODUCTION ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Paper used	8,657	14	3	By Sales—Cash	716	15	4
,, Ink used	506	10	8	,, Sale to Agents, *less* Discounts and Returns	15,327	10	3
,, Compositors' and Machining Wages	4,316	17	6	,, Sales to Subscribers, *less* Postages and Wrappers	2,237	18	6
,, Cost of Literary Contributions	1,026	3	6				
,, Reporters' and Office Salaries	4,856	13	6		18,282	4	1
,, Editors' Salaries	1,500	–	–	,, Advertisements	18,756	12	10
,, Newsagency Telegrams	255	8	2	,, Sales of Waste Paper	226	13	8
,, Petty Expenses	65	15	7	,, Jobbing Printing Sales	88	14	8
,, Gas, Electric Current, and Fuel	506	10	8				
,, Repairs and Renewals	320	9	4				
,, Depreciation of Machinery, Plant, and Stereos	245	10	–				
,, Depreciation of Linotype Installation	75	–	–				
,, Rates, Taxes, and Insurance of Works	164	8	6				
,, Balance (Gross Profit)	14,857	3	7				
	£37,354	5	3		£37,354	5	3

Accounts similar to the above are also drawn up in Trading and Profit and Loss Account form.

Example 4—

THE ELBURY STEAM TRAWLER COMPANY

Dr. WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Coal and Oil	156	17	4	By Sales of Fish	1,036	15	8
,, Repairs and Renewals	85	14	3	,, Sale of Old Rope, etc.	1	6	10
,, Landing Dues	12	5	6				
,, Harbour Dues	10	3	7				
,, Wages—General	156	4	8				
,, do. Fishermen	163	12	4				
,, do. Casual Labour	22	10	6				
,, Commission	20	–	–				
,, Ropes, Stores, etc.	53	2	10				
,, Net Braiding, Mending, and Tarring	16	19	5				
,, Carpentering	14	3	6				
,, Painting	12	9	2				
,, Salvage Claims	23	14	6				
,, Balance (Gross Profit)	290	4	11				
	£1,038	2	6		£1,038	2	6

Accounts similar to the above are sometimes drawn up in Revenue Account form, also in Trading and Profit and Loss Account form.

Example 5—

LEEKLEY CANAL COMPANY

Dr. WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Maintenance, Dredging, and Ice-breaking .	3,617	14	2	By Toll Traffic Receipts .	7,516	13	8
,, Rents Payable . .	2,016	3	6	,, Freight ,, ,, .	14,608	5	10
,, Rates, Taxes, and Insurance	1,426	16	3		22,124	19	6
,, General Charges . .	1,319	2	9	*Less* Traffic Expenses	12,016	14	3
,, Depreciation of Boats, Horses, and Carrying Plant . . .	896	8	10	Net Traffic Receipts .	10,108	5	3
,, Balance (Gross Profit) .	4,774	18	1	,, Rents Receivable . .	3,856	13	6
				,, Miscellaneous Receipts .	86	4	10
	£14,051	3	7		£14,051	3	7

Accounts similar to the above are sometimes drawn up in Income and Expenditure Account form, also in Revenue Account and Net Revenue Account form.

Example 6—

OCEAN NAVIGATION COMPANY, LTD.

Dr. WORKING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Navigation Expenses—				By Passage Money . .	1,096,520	10	6
Coal, Oil, and Water .	655,000	5	11	,, Freight, Charters, and Miscellaneous Services	1,484,201	5	3
Dues, Towage, Pilotage, etc.	184,620	2	6	,, Government Contract Services—India, China, Australia . . .	285,000	–	–
Pay of Officers and Crew	316,680	15	6	,, Compensation from Argentine Government for seizure of s.s. *Eastern Star*	12,000	–	–
,, Provisioning of Passengers, Officers and Crew	305,027	13	4				
,, Suez Canal Dues . .	326,156	12	9				
,, Miscellaneous Expenses.							
Damages, Claims, and Law Charges . .	15,000	–	–				
Expenses of Steamers laid up . . .	10,626	16	8				
Quarantine Charges .	1,950	15	6				
,, Ships' Repairs, Stores, and General Maintenance Charges . .	176,320	4	8				
,, Insurance Charges and General Average Claims	20,627	10	6				
,, Depreciation of Fleet, etc.	345,000	–	–				
,, Balance (Gross Profit) .	520,710	18	5				
£	2,877,721	15	9	£	2,877,721	15	9

Accounts similar to the above are sometimes drawn up in Trading and Profit and Loss Account form.

Example 7—

THE "NORMLEY" HOTEL, LTD.

WORKING ACCOUNT

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Consumption of—				By Amounts charged to Customers—			
Groceries and Provisions	4,670	12	8	Groceries and Provisions	6,763	10	6
Wines, Spirits, and Liqueurs	4,356	7	3	Wines, Spirits, and Liqueurs	6,857	12	8
Ale, Beer, and Minerals	2,017	8	4	Ale, Beer, and Minerals	3,169	14	9
Tobacco, Cigars, and Cigarettes	1,156	16	5	Tobacco, Cigars, Cigarettes	1,654	3	10
Sundry Stores	275	10	9	Apartments, Attendance, and Baths	12,079	5	6
,, Wages and Salaries	5,230	7	6	,, Bar Receipts	1,168	19	4
,, Licences and Insurances	1,036	5	9	,, Billiard Room Receipts	512	11	7
,, Newspapers, Magazines, Printing, and Stationery	327	13	4	,, Stable and Garage Receipts	308	10	5
,, Coals, Gas, and Lighting	673	12	10				
,, Repairs and Renewals of Buildings	237	14	6				
,, Laundry	365	10	2				
,, Stable and Garage Expenses	256	7	5				
,, Rent, Rates, and Taxes	1,265	10	6				
,, Repairs, Renewals, and Depreciation—							
Furniture and Fittings	321	16	4				
Cutlery and Plate	186	15	6				
House, Bed, and Table Linen	126	13	8				
China and Glass	147	4	3				
,, Balance (Gross Profit)	9,862	1	5				
	£32,514	8	7		£32,514	8	7

Accounts similar to the above are also prepared in Trading and Profit and Loss Account form.

STOCK CONTROL

For a very long time the stock carried by a business has been looked upon as something quite divorced from the bank balance and, if money is becoming short, sundry debtors are examined with a view to speeding up collections, and expenses accounts are often searched for unnecessary expenditure.

In comparatively recent years, however, the effect that bad buying may have on the financial position has been appreciated to a much greater extent, resulting in the scientific development of the control of stock. The word *bad* in this case may apply to type, quantity or quality.

The importance of this control must obviously vary as between different businesses. In the case of the trader who handles imperishable or standardized articles, it may only mean that money is locked away for longer than is really necessary, but in the case of fashion goods, stock needs to be turned over very quickly or it becomes quite unsaleable, in which case it represents money thrown away.

There are two aspects of this question of stock control.

The Cost Accountant, for example, is concerned with waste, and therefore, with the correct recording of issues of materials and returns to stores, as any weakness in this system may render his results more or less worthless.

The Financial Accountant on the other hand must of necessity look upon stock as representing money, and must satisfy himself that suppliers' accounts are in order before payment is made.

Consideration of the advantages of a good stock control system will provide some idea of what the problem really entails.

In the main these advantages are—

1. Elimination of the delivery of incorrect stock, as regards type, quantity or quality.
2. Reduction or elimination of pilfering.
3. Control of movement showing sales per product.
4. Avoidance of holding of slow moving stock which, apart from tying up money, may be completely wasted by obsolescence.
5. Increased facilities for taking a physical stock at short periods.
6. Provision of a check on over-ordering when demand may fall off.
7. Prevention of the passing of invoices for payment without the receipt of the relative goods.
8. Prevention of goods being charged at incorrect prices.

It is not suggested that this is an exhaustive list of the advantages to be obtained, or that the following remarks are in any way a complete answer to this most important question. Every business has problems peculiar to itself.

1. **Elimination of the Delivery of Incorrect Stock, as regards Type, Quantity, or Quality.** It is quite a general practice to send a copy of every order to the stock or stores keeper who, being in possession of the full details, may fail to check as thoroughly as he should. If the position is reversed and details of goods received have to be supplied by the receiving department to the office, a more thorough check is almost certain to take place. As to quality and type, these can be vouched for only by the person or persons responsible for examination before goods are passed into stock. Copy orders will be available at the time of checking and as evidence that the goods are satisfactory the delivery note should be signed by the examiner.

2. **The Reduction or Elimination of Pilfering.** In the first place no person or persons but those authorized to do so should ever be allowed to pass beyond the point of issue into the Stock Room or Stores. That will obviously very greatly reduce the possibility of pilfering. A physical check of stock should be made at random and at irregular intervals, and this should be as sufficient a moral check on pilfering of stock as the audit is a preventive of pilfering of cash.

3. **Control of Movement Showing Sales per Product.** This is obviously a question of analysis and regular returns. Comparisons with previous records will indicate changes in demand, which information should be passed on to the Purchase Department where quantities can be increased or decreased accordingly. There is one very great danger against which it is necessary to be on guard in connexion with analysis. Whilst the maximum information is required, the analysis may be much overdone, and prove an expense, and unless it is kept completely up-to-date the details will be of very little use.

4. **Avoidance of Holding of Slow Moving Stock.** Analysis will, of course, contribute to this but an additional check is obtained by marking on each of the Stock Record Cards a minimum and maximum quantity. The minimum is the lowest quantity to which the particular line should be allowed to drop if deliveries are to be maintained, and in arriving at this figure the two points to be considered are the speed at which it is used or sold and the length of time required for delivery on the part of suppliers. The maximum is the figure above which it may be considered an excessive stock is being carried, and according to the particular business or article may represent six or nine months' stock. Where stock moves more rapidly or more slowly, the store or stock keeper is responsible for reporting immediately for the necessary action on the part of the Purchasing Department. If stock is moving more rapidly, the quantity normally ordered or put into production can be increased to maintain the stock. Conversely the purchasing can be reduced and when necessary the stock disposed of as a clearance line.

5. **Increased Facilities for Taking a Physical Stock at Short Periods.** For the purpose of preparing interim Trading and Profit and Loss Accounts, stock is quite frequently estimated, but it is obvious that a correct stock-taking is the ideal at which to aim. If the system of recording stock is a good one and kept up to date with the monetary value shown against the balances, stock sheets or books can be quickly prepared.

6. **Provision of a Check on Over-ordering when Demand may Fall Off.** This point has been mentioned under item No. 4, but even this will fail in its object unless the minimum and maximum stocks are frequently revised. This can be done by the regular inspection of groups of stock cards when alterations can be made as seems necessary.

7. **Prevention of the Passing of Invoices for Payment Without the Receipt of the Relative Goods.** This is particularly important when regular deliveries are received of the same goods and in the same quantities. One satisfactory method of attaining this object is to allot letters to the various sections of the stores or stock and a number to each delivery. No invoice should be

passed through the books without the delivery note being attached which bears this number and letter, and to indicate that the order has been marked off the order number appearing on the invoice should be marked through.

8. **Prevention of Goods being Charged at Incorrect Prices.** This can only be done by insisting that every invoice is checked against the corresponding order or quotation and that orders issued always have prices inserted.

QUESTIONS

1. What is a Manufacturing Account? With what items does it deal?
2. Explain the meaning of the terms "prime cost" and "cost of production."
3. What is meant by "oncost" or "overhead"? What are its two usual divisions?
4. What expenditure is included under (*a*) works overhead, (*b*) general overhead?
5. At what price should goods manufactured in one's own factory be charged to the Selling Department? What different views are there on this point?
6. What is meant by a sub-Manufacturing Account, and when is such an account used?
7. How can we arrive at the prime cost of the goods actually sold during a certain period, when the stock at commencement and finish thereof differs by a considerable amount? How are the values of the turnover and output arrived at when there is work in progress at start and finish of the trading period?
8. Define the term Working Account. To what other forms of accounts are Working Accounts in many cases similar?
9. Explain the difference in the attitude of the Cost Accountant and the Financial Accountant to the question of stock control.
10. What are the main advantages of a good stock control system?

EXERCISE XVI

1. From the following particulars draw up in both forms a Manufacturing Account and a Trading Account, and carry the balances in each case to a Profit and Loss Account—

	£	s.	d.
Stocks, 1st January—			
Raw Materials	6,273	11	4
Partly Manufactured Goods	7,985	12	6
Overhead on above	1,396	18	5
Finished Goods	5,674	13	9
Stocks, 31st December—			
Raw Materials	4,916	13	2
Partly Manufactured Goods	10,408	16	5
Overhead on above	1,742	13	6
Finished Goods	5,509	10	6
Purchases of Raw Materials	22,437	16	3
Freight and Carriage on above	459	3	8
Productive Wages	22,587	18	2

	£	s.	d.
Factory Overhead—			
Rent, Rates, Taxes, and Insurance	1,312	12	5
Gas, Fuel, Water, Lighting, and Heating	1,198	13	6
Patent Royalties	306	5	9
Wages and Salaries	1,910	10	3
Repairs, Renewals, and Depreciation of Tools, Machinery, etc.	1,806	17	8
Interest on Capital Outlay on Plant and Machinery, Tools, Land, and Buildings	2,485	9	4
Sales	73,086	14	2
Sales Returns	2,378	12	7

The trade price of the goods manufactured was £58,472 1s. 8d.

2. From the following particulars prepare Manufacturing Account (showing cost of pig iron produced) and Trading Account for the year ended 31st Dec.—

	£	s.	d.
Stocks, 1st January—			
Pig Iron	29,642	16	7
Limestone	402	10	11
Coal and Coke	1,846	12	9
Iron Ore	1,725	9	6
Purchases during Year—			
Coal and Coke	28,607	10	5
Limestone	3,743	12	10
Iron Ore	17,028	6	4
Sales of Pig Iron during year	123,350	11	8
Expenses during year—			
Furnace Wages	8,845	3	11
Carriage Inwards	2,516	10	3
Carriage Outwards	3,308	12	6
Repairs and Renewals of Furnaces	2,847	13	5
Stocks at 31st December—			
Pig Iron	37,858	11	6
Limestone	383	13	4
Coal and Coke	1,916	12	5
Iron Ore	1,732	6	8

3. From the following particulars prepare (*a*) Spinning Account, (*b*) Weaving Account, (*c*) Trading Account for the year ended 31st December—

	Spinning Dept. £	s.	d.	Weaving Dept. £	s.	d.
Cotton	82,616	10	5	——		
Purchase of Yarns, etc.	——			4,106	12	5
Brokerage Charges, etc.	297	13	8	——		
Freight and Carriage	1,187	12	9	763	14	9
Wages and Salaries	17,802	15	4	28,780	15	6
Coals	1,987	11	5	1,127	14	11
Oil, Tallow, Waste, etc.	306	14	8	165	2	9
Gas, Electric Light, and Water	265	10	3	128	16	7
Cards, Ropes, Roller, Leather, and Cloth	786	2	10	——		
Skips, Bobbins, and Skewers	208	10	6	114	3	6
Brushes, Starch, and Binding	286	14	7	——		
Strapping and Laces	121	16	9	96	12	3
Packing, Paper, and Twine	297	3	8	——		
Rates, Taxes, and Insurance	436	3	10	226	13	4
Mill Charges and Sundry Stores	206	14	8	197	10	5
Horse and Stable Expenses	187	6	7	112	4	10

	Spinning Dept. £ s. d.	Weaving Dept. £ s. d.
Repairs to Buildings, Engines, Boilers, Gearing, etc.	1,287 14 6	478 13 6
Depreciation of Plant and Machinery	2,206 15 2	2,087 19 5
Sale of Yarns	6,816 12 9	—
,, Waste	2,632 5 11	136 15 2
,, Sundries	89 14 7	95 6 8
Shuttles, Pickers, Picking Bands, etc.	—	538 10 8
Reeds, Combs, and Healds	—	309 14 6
Brushes and Sundries	—	105 3 10
Flour and Sizing Materials	—	1,594 11 7

	1st Jan. £ s. d.	31st Dec. £ s. d.
Stocks of Cloth—		
At Mills	40,785 10 2	40,753 2 10
At Warehouse	75,016 11 6	76,017 14 8
At Bleachers and Dyers	9,528 16 8	8,426 11 9
Goods purchased		8,675 10 3
Bleaching, Dyeing, and Printing		28,487 11 5
Carriage		339 16 7
Packing		273 14 8
Sales of Cloth—		
Grey		61,728 15 6
White		160,906 14 11
Dyed		12,614 13 8
Sales of Bought Goods		9,427 13 6

4. From the following particulars of the "Newbell" Brickworks, prepare a combined Manufacturing and Trading Account for the year ended 31st Dec.—

Coal consumed, £1,897 15s. 2d.; Stores consumed, £256 7s. 9d.; Rations, £763 2s. 10d.; Wages, £2,916 14s. 7d.; Stable Expenses, £12 3s. 8d.; Rent, £165 10s.; Carriage Inwards, £438 12s. 9d.; Repairs and Renewals, £247 6s. 5d.; Medical Fees, £12 12s.; Depreciation—Plant, £106 2s. 11d.; Machinery, £195 13s. 6d.; Kilns, £203 4s. 7d.; Pumping Plant, £12 6s. 9d.; Railway Siding, £10 14s. 5d.; Brick Sales during year, £9,671 18s. 9d. Stock of Bricks—1st Jan., £972 5s. 10d.; 31st Dec., £716 15s. 8d.

5. From the following particulars prepare Trading and Profit and Loss Account, showing percentages of gross and net profit and expenses on turnover—

Stock, 1st Jan., £8,947 10s. 6d.; Work in Progress, 1st Jan., £1,263 5s. 1d.; Purchases *less* Returns, £12,056 3s. 7d.; Sales *less* Returns, £23,529 16s. 8d.; Salaries, £486 12s. 5d.; Commission, £327 5s. 10d.; Wages, £3,585 16s. 2d.; Advertising, £326 13s. 7d.; Discounts, *Dr. balance*, £384 9s. 4d.; Carriage Inwards, £1,857 10s. 2d.; Rent, Rates, and Taxes, £375 14s. 5d.; Carriage Outwards, £352 17s. 9d.; Trade Expenses, £375 11s. 4d.; Bad Debts, £327 6s. 10d.; Depreciation, £384 15s. 8d.; Interest on Capital, £257 11s. 6d.; Stock, 31st Dec., £9,765 19s. 3d.; Work in Progress, 31st Dec., £1,628 19s. 2d.

6. From the following particulars of the "Krynx" Gold Mining Co., Ltd., prepare Working Account for the year ended 31st Dec.—

Ore extraction—Expenses of Mining, £40,825 16s. 7d.; Reduction of Ore—Milling, £16,517 12s. 8d.; Concentrating, £10,026 5s. 3d.; Cyaniding, £44,587 2s. 9d.; Tramming, £4,866 12s. 11d.; Concession Rents paid, £600; Royalties paid, £3,427 10s. 5d.; Prospecting Expenses, £1,013 1s. 8d.; Claim Expenses, £1,768 15s. 3d.; Wages at Mine, £4,026 4s. 10d.; General Charges at Mine,

£2,347 13s. 6d.; Mint and Bank Charges on Bullion, £1,428 17s. 5d.; Depreciation of Machinery and Plant, £5,043 12s. 8d.; Bullion Account, £246,017 13s. 2d.; Tailings Account, £2,034 15s. 6d.

7. From the following particulars of the "Koomrie" Tobacco Plantations, prepare Working Account for the year ending 31st Dec.—

Planting Wages, £13,016 14s. 8d.; Manufacturing Wages, £4,408 12s. 2d.; Salaries—European Staff, £7,087 3s. 11d.; Native Overseers, £2,007 16s. 5d.; Native Watchmen, £896 7s. 10d.; Coolie Expenses (Brokerage, Passage Money, etc.), £2,956 11s. 6d.; Hospital Working Expenses, £1,016 4s. 8d.; Transport Expenses, £1,037 2s. 6d.; General Plantation Expenses, £1,216 18s. 7d.; Stable Expenses, £602 10s. 9d.; Loss (by death) of Advances to Coolies, £536 5s. 2d.; Wastage of Live Stock, £467 9s. 4d.; Commission on Sale of Tobacco, £3,026 13s. 3d.; Repairs, Renewals, and Depreciation—Railway, £167 19s. 5d.; Steam Launch, Lighters, etc., £346 2s. 9d.; Loose Tools, £307 14s. 8d.; Pier Wharf, etc., £265 10s. 6d.; Ways, Roads, etc., £1,328 11s. 4d.; Buildings, etc., £3,516 13s. 5d.; Proceeds of Sale of Tobacco, £60,817 18s. 6d.

8. From the following particulars of the *Western Star* Newspaper Co., Ltd., prepare Working Account (or Production Account) for the year ending 31st Dec.—

Paper used, £8,516 10s. 2d.; Ink used, £487 14s. 6d.; Compositors and Machining Wages, £4,206 15s. 8d.; Cost of Literary Contributions, £987 14s. 3d.; Sales—Cash, £707 16s. 8d.; Agents, less Discounts and Returns, £15,016 2s. 10d.; Subscribers, less Postages and Wrappers, £2,187 14s. 5d.; Reporters and Office Salaries, £4,617 10s. 2d.; Editors' Salaries, £1,400; Newsagency Telegrams, £246 18s. 6d.; Petty Expenses, £72 6s. 10d.; Gas, Electric Current, and Fuel, £487 13s. 5d.; Repairs and Renewals, £316 14s. 9d.; Sales of Waste Paper, £206 14s. 7d.; Advertisements, £17,950 5s. 8d.; Jobbing Printing Sales, £80 10s. 3d.; Depreciation—Plant, Machinery, and Stereos, £236 15s. 7d.; Linotype Installation, £70; Rates, Taxes, and Insurance of Works, £160 14s. 8d.

9. From the following particulars of the "Bexton" Steam Trawler Co., prepare Working Account for the year ending 31st Dec.—

Coal and Oil, £147 10s. 9d.; Repairs and Renewals, £80 12s. 5d.; Landing Dues, £10 8s. 6d.; Harbour Dues, £8 4s. 3d.; Wages—General, £148 10s. 9d.; Fishermen, £150 6s. 5d.; Casual Labour, £18 14s. 7d.; Commission, £20; Repairs, Stores, etc., £50 13s. 6d.; Net Braiding, Mending, and Tarring, £14 11s. 5d.; Carpentering, £12 9s. 7d.; Painting, £11 8s. 4d.; Salvage Claims, £20 16s. 5d.; Sales of Fish, £994 8s. 10d.; Sale of Old Rope, etc., £1 3s. 11d.

10. The following Balances are extracted from the books of the "Oversley" Canal Co. You are required to draw up the Working Account for the year ending 31st December—

Maintenance, Dredging, and Ice Breaking, £3,506 13s. 8d.; Rents Payable, £1,857 10s. 6d.; Rates, Taxes, and Insurance, £1,314 14s. 5d.; General Charges, £1,206 15s. 4d.; Toll Traffic Receipts, £7,406 15s. 6d.; Freight Traffic Receipts, £14,517 11s. 8d.; Traffic Expenses, £11,986 14s. 4d.; Depreciation of Boats, Horses, and Carrying Plant, £862 9s. 10d.; Rents Receivable, £3,914 16s. 7d.; Miscellaneous Receipts, £85 9s. 8d.

11. From the following particulars extracted from the books of the "Wide Seas" Navigation Co., Ltd., prepare Working Account for the year ended 31st December—

Navigation Expenses: Coal, Water, and Oil, £609,126 10s. 9d.; Dues, Towage, Pilotage, etc., £148,705 15s. 6d.; Pay of Officers and Crew, £282,856 11s. 5d.; Provisioning of Passengers, Officers, and Crew, £257,493 18s. 4d.; Suez Canal Dues, £289,586 16s. 8d.; Damages, Claims, and Law Charges, £12,000 10s. 6d.;

Expenses of Steamers laid up, £9,857 4s. 11d.; Quarantine Charges, £1,625 17s. 5d.; Ships' Repairs, Stores, and General Maintenance Charges, £165,714 6s. 7d.; Insurance Charges and General Average Claims, £18,409 13s. 4d.; Depreciation of Fleet, etc., £327,916 15s. 6d.; Passage Money, £1,025,716 15s. 8d.; Freight Charters and Miscellaneous Services, £1,306,578 10s. 6d.; Government Contract Services, £250,000; Compensation from Brazilian Government for seizure of s.s. *Early Bird*, £10,000.

12. The following Balances are extracted from the books of the "Sunbeam" Hotel, Ltd. You are required to prepare therefrom the Working Account for the year ended 31st December—

Amounts Consumed: Grocery and Provisions, £4,520 14s. 2d.; Wines, Spirits, and Liqueurs, £4,206 10s. 8d.; Ale, Beer, and Minerals, £1,986 13s. 5d.; Tobacco, Cigars, Cigarettes, £1,023 17s. 6d.; Sundry Stores, £240 16s. 7d.; Wages and Salaries, £5,017 11s. 4d.; Licences and Insurances, £957 13s. 10d.; Newspapers, Magazines, Printing, and Stationery, £305 4s. 9d.; Coals, Gas, and Lighting, £627 19s. 1d.; Repairs and Renewals of Buildings, £214 10s. 6d.; Laundry, £334 18s. 5d.; Stable and Garage Expenses, £235 6s. 8d.; Rates, Taxes, and Insurance, £1,075 10s. 6d.; Repairs, Renewals, and Depreciation —Furniture and Fittings, £306 4s. 6d.; Cutlery and Plate, £162 8s. 5d.; House, Bed, and Table Linen, £105 11s. 3d.; China and Glass, £114 17s. 9d.; Amounts charged to Customers—Grocery and Provisions, £6,517 11s. 4d.; Wines, Spirits, and Liqueurs, £6,702 10s. 8d.; Ale, Beer, and Minerals, £3,098 12s. 6d.; Tobacco, Cigars, Cigarettes, £1,587 8s. 9d.; Apartments, Attendance, and Baths, £11,516 14s. 3d.; Bar Receipts, £1,025 11s. 5d.; Billiard Room Receipts, £472 9s. 7d.; Stable and Garage Receipts, £276 15s. 4d.

13. From the following Trading Account ascertain and state—

(*a*) The cost of material used.
(*b*) The value of the output of manufactured goods.
(*c*) The percentage of gross profit on sales.

Dr. TRADING ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Stock—							
Finished Goods	4,000	–	–	By Sales	42,000	–	–
Raw Materials	1,200	–	–	„ Stock—			
„ Purchases	12,000	–	–	Finished Goods	3,500		–
„ Wages	20,000	–	–	Raw Materials	1,400		–
„ Carriage	1,000	–	–				
„ Balance (Gross Profit)	8,700	–	–				
	£46,900	–	–		£46,900	–	–

(*Incorporated Accountants.*)

14. An order amounting to £2,000 was executed at a cost of: Wages, £880; Materials, £602. Working on the cost figures shown below, state the net profit made on carrying out the order.

COST FIGURES

	£
Materials	13,000
Wages	26,000
Works Overhead	6,500
Gross Profit	4,500
Office Overhead	1,300
Net Profit	3,200
Work executed	50,000

(*I.B.L.*)

15. An Engineer's books give the following figures—for the first year: Materials purchased, £17,500; Sales, £30,000; Wages, £7,500; and Expenses, £2,000. The Stocks at the beginning of the year were: Materials, £6,000; Finished Work, £4,000; and at the end of the year they were: Materials, £5,000; and Finished Work, £3,000. For the second year, the materials purchased were £14,000; Wages, £4,800; Expenses, £1,200; and Sales, £17,000. The Stock at the end of the second year is Materials £7,000, and Finished Work, £6,000. Prepare a statement showing each year (and also the average of the two years) what are the percentages of Cost of Materials, Wages, Expenses, and Profit on the output. (*West Riding of Yorkshire.*)

16. The undermentioned figures have been extracted from the Trial Balance of the Blankshire Iron Co., Ltd., whose financial year closes on 30th June.

Prepare a Furnaces Account showing the cost per ton of the Pig Iron produced, a Trading Account and a Profit and Loss Account.

Balances Extracted from Trial Balance
30th June

	£
Coal purchased	7,320
Coke and Limestone purchased	19,550
Ironstone purchased	7,461
Wages (Furnace)	6,842
Sales of Pig Iron	62,446
Stock of Pig Iron (30th June)	9,402
Trade charges	5,424
Sales of Waste Materials and By-products	5,862
Office Salaries	3,401
Directors' Fees	1,500
Transfer Fees	52
Depreciation	3,890
Interest received	321
Bad Debts	1,680

The stock of Pig Iron in hand as on 30th June was valued at £9,221.

The Pig Iron produced during the year amounted to 18,600 tons. (*London Chamber of Commerce.*)

17. A Manufacturer's books show the following figures for each item for two years: Materials used, £22,389 and £21,427; Wages, £7,495 and £7,577; Rent and Power, £1,659 and £1,655; Carriage, £513 and £494; Trade Expenses, £303 and £309; Gas and Water, £213 and £240; Travellers, £719 and £763; Repairs, £426 and £563; Insurance, £78 and £78; Depreciation, £600 and £580.

Goods produced (Net), £36,468 and £36,261.

Prepare a statement showing for each year the various costs per cent on production. (*West Riding of Yorkshire.*)

18. From the particulars given in Exercise II, 30, page 95, prepare a Mine Working Account.

19. Messrs. John Berry and L. Flower were equal partners in the firm of Berry & Flower, Iron Smelters. The following balances of accounts appeared in their books as on 31st December: General Wages, £8,037; Coal used (including Carriage), £6,047; Coke used (including Carriage), £17,546; Wagon Hire (credit balance), £278; Pig Iron Sales, £54,056; Foundry consumption of Pig Iron, £103; Branch Railway Income (leased to adjoining company), £705; Materials and Stores (including Foundry Charges and Repairs to Locomotives,

etc.), £1,198; Ironstone used (including Royalties, etc.), £5,707; Limestone used (including Royalties, etc.), £1,513; Salaries of Furnace Experts, £559; Travelling Expenses, £40; Rates and Taxes, £657; Land Damages and Compensation to neighbours, £60; General Charges, £92; Manager's Salary, £500; Pig Iron Stock (31st December), £12,268; Interest (credit balance), £199; J. Berry (Drawings Account), £4,000; L. Flower (Drawings Account), £5,000; Works Plant, Rolling Stock; etc., £33,080; Coal and Coke Wagons, £3,150; Coal Stock (31st December), £240; Coke Stock (31st December), £688; Ironstone Stock (31st December), £600; Limestone Stock (31st December), £35; J. Berry (Capital), £25,531; L. Flower (Capital), £26,613; Sundry Creditors (including all necessary adjustments), £18,732; Sundry Debtors, £15,329; Loans to Workmen, £213; Provision for Bad Debts, £909; Cash at Bank (Deposit), £9,000; Cash at Bank (Current), £1,523; Cash in hand, £44.

Write £2,500 off Works Plant, Rolling Stock, etc., as depreciation.

Write £150 off Coal and Coke Wagons as depreciation.

Make the Provision for Bad Debts up to £1,500.

No interest upon Capital or Drawings is to be charged.

The stock of Pig Iron on 31st December was valued at £10,550.

Prepare a Pig Iron Production Account (showing the cost of Pig Iron produced); a Pig Iron Trading Account (showing the gross profit realized by Pig Iron Sales); and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date. *(Chartered Accountants.)*

20. Enumerate the items that you would expect to find in the following accounts—

(*a*) Manufacturing Account (prime cost only).
(*b*) Manufacturing Account (cost of production).
(*c*) Working Account of a Mine.
(*d*) Working Account of a Canal Company.

21. Give your views on manufacturing accounts and state your reasons in support of your preference for the prime cost basis of its construction, or, if you oppose the prime cost basis of construction, give reasons justifying the inclusion of oncost items therein.

22. Prepare a Furnace Account (two ways), inserting figures to give completeness to the examples, that will show the components of cost of manufacture of pig iron.

23. For the current year a Trading Account stands thus—

	£		£
Cost of Materials .	5,000	Sales . . .	10,000
Wages . . .	3,000		
Discount . .	500		
Expenses . .	1,500		
	£10,000		£10,000

State the above costs as percentages on turnover.

As this leaves no profit, the trader considers how he can improve matters, and finding that he cannot advance his selling prices he will aim at increasing the turnover by £2,000, and reducing the percentage costs on turnover by Materials 2, Wages 1, Discount 2: the Expenses remain at the same amount.

Show his Trading Account for the next year on the basis of these alterations. (*West Riding of Yorkshire.*)

24. State in what manner you consider the percentages of cost should be shown in a manufacturing business of which the following are the Profit and Loss figures for the year. Calculate such percentages.

	£	£
Purchases	4,500	
Wages	2,000	
Rent	200	
Stock, 1st January	1,000	
Rates, Taxes, and Insurance	100	
Salaries	750	
Depreciation of Plant	250	
Stock, 31st December		1,000
Sales		10,000
Net Profit	2,200	
	£11,000	£11,000

(*Chartered Accountants.*)

25. The London and Madras Trading Co., Ltd., opened a Branch in Madras on 1st July. The following are balances extracted from the Madras Branch Books on 30th June (1st year) and 30th June (2nd year).—

	1st Year £	*2nd Year* £
Stock at the beginning of the year	Nil	5,400
Purchases during the year	10,000	11,000
Freight and Duty (Inward)	850	1,200
Packing Charges (Inward)	200	350
Wages	200	250
Salaries—Manager	600	1,000
Do. General	400	500
Commission—Manager	300	Nil
Do. General	50	40
Travelling	400	360
Advertising	150	300
Postages and Telegrams	100	200
General Expenses	120	180
Sales	6,000	11,300

The Stock on hand at 30th June (2nd year) was £7,700.

Make out comparative Trading Accounts for the two years, showing gross and net trading profit and percentages. Draw attention to any points which, in your opinion, call for further investigation, and criticize the results shown. You are informed that in the first year the shipments consisted wholly of valuable goods of comparatively small bulk; but in the second year one-third of the shipments consisted of bulky goods of comparatively small value. (*Chartered Accountants.*)

26. The manager of a Manufacturing Concern, of which you are auditor, is paid partly by salary and partly by commission. Under the agreement for service, in case of dispute as to the commission payable, the auditor's decision is to be final. Such a dispute has arisen, and in order that your decision may be wholly unbiased, the Profit and Loss figures are given to you, without

any indication as to which are the items in dispute. The following are the figures supplied, and you are asked to prepare and certify statements showing—

(a) The manufacturing profit.

(b) The percentage of net profit to the manufacturing cost.

	Dr.	Cr.
	£	£
Stock, 1st January	1,500	
Purchases	2,000	
Manufacturing Wages and Salaries	2,000	
Office Salaries	410	
Discount on Sales	150	
Carriage Inwards	100	
Carriage Outwards	120	
Printing and Stationery	70	
Rent and Rates	390	
Travelling Expenses	130	
General Expenses	290	
Discount on Purchases		100
Sales		6,000
Stock, 31st December		1,800
	£7,160	£7,900

In answering this question, the detail must be shown. (*Chartered Accountants.*)

27. Provide the necessary Journal, Cash Book, and Ledger records for the following transactions—

(a) Sold Goods to B on a three months' bill, which document was for £200; B accepted on 1st January, at which date it was endorsed over to J, a creditor. The bill was duly met on maturity.

(b) Bought, on credit, from the Exact Scale Manufacturing Co., Ltd., a special mechanical scale which has dial plates showing weight and price, cost £200. Where, and how will you record this transaction?

(c) A, who has a *contra* account with Jones', Ltd., desires a settlement of his account with them. In the books of both parties, show how the following transactions will be recorded—

(1) Being defective, Jones' return goods value £5 to A.

(2) A cheque on account sent by A to Jones' has been returned R/D; amount stated in the cheque was £25.

(3) A has advised Jones' that an invoice for purchases from him value £75 is in error to the extent of £9; due to one item being charged at £21 instead of £12.

The above matters must be adjusted; and you are asked to state how much A must forward Jones' in settlement, in addition to providing the necessary book-keeping records. [According to A's books his accounts for Jones' were—(a) in the Bought Ledger, a balance of £320; (b) in the Sales Ledger, a balance of £60; prior, of course, to the above transactions arising.]

28. Capital expenditure and revenue expenditure must be carefully discriminated, and you are asked to place under "capital" and "revenue" respectively the following items, giving reasons, where necessary, for items which seem partly capital and partly revenue—

(1) Sale of Old Plant.
(2) Purchase of Patent Rights.
(3) Renewal fee for (2).
(4) Purchase of Delivery Vans.
(5) ,, ,, New Wheels (at a later date) for (4).

(6) Installation of Electric Light, etc.
(7) Depreciation of (6).
(8) Purchase of Plant and Machinery.
(9) Repairs to (8).
(10) Extension of Water Mains by a Water Company; also replacement of existing Mains.

29. A business has ten Sales Ledgers marked respectively A, B, C, etc. The Sales Day Book has analysis columns corresponding to the Ledgers. Each Ledger is balanced separately each month. On 20th January a sale of £10 posted to F Ledger is placed in Day Book in G column by mistake. Say how the January monthly summaries of F and G Ledgers are affected, and how the balances shown by the summaries will compare with the balances as extracted from the Ledgers.
(*West Riding of Yorkshire.*)

30. Explain what is meant by "Capital Expenditure," and state the considerations which would guide you in deciding whether a particular item of expenditure properly comes within this category or not.
(*West Riding of Yorkshire.*)

31. The X Company, Ltd., purchased a business as a going concern, as from the 1st April, for £33,000, payable as to £25,000 in fully-paid shares of £1 each, and the balance in cash, all outstandings to be adjusted up to that date, and the company to pay interest at the rate of 5 per cent per annum, on the net purchase money from 1st April up to the date of completion, namely, the 1st July. As on the 1st April the following payments had been made in advance—

Telephone Rent	£10	12	11
Fire Insurance	6	6	6
Plate Glass Insurance . . .	2	7	–

On the other hand, there were outstanding liabilities as follows—

Rent	£15	7	8
Gas and Electric Light . . .	86	17	–
Water Rate	2	10	–

Between the 1st April and the 1st July, the vendors received on account of the purchasers £10,942 13s. 5d., and paid on their account £2,485 12s. 6d. A deposit of £3,000 had been paid by the purchasers on the 1st April.

Prepare an account showing the amount due on completion of the purchase.
(*Chartered Institute of Secretaries.*)

32. A. Andrews & Co., of London, consigned goods to the value of £2,000 to their agent, B. Bengalee of Bombay, and drew on him for £1,500 at 3 months, discounting the bill at the National Provincial Bank for £1,485. The charges for Insurance, Freight, etc., paid by A. Andrews & Co. amounted to £70. In due course B. Bengalee rendered an Account Sales to A. Andrews & Co. for £2,500 *less* Commission, etc., £85, enclosing a Sight Draft for the balance. Record these transactions in A. Andrews & Co.'s books. (*Chartered Accountants.*)

33. Smith & Jones united in a venture to purchase at par and issue to the public £200,000 debentures of a company, and agreed to share profits and losses equally. They issued the debentures, which were fully subscribed, at 5% premium. Smith, on his own account, subscribed for and was allotted £20,000 which he subsequently sold at 10% premium; while Jones subscribed for and was allotted £3,000, which he sold at 9% premium. The cost of the issue was £6,000. Create an Account showing how much each gained by the transaction, disregarding interest and tax. (*Chartered Accountants.*)

34. A bill at 6 months for £500, accepted by A on 1st January for goods purchased from B, is discounted with C on 31st March at 5 per cent per annum. The bill is dishonoured by A's bankers on presentation, the charges for noting and expenses being 5s. A then agrees to pay B £100 Cash on account, and to be charged interest at 6% p.a., giving two bills—one for £200 at 3 months and one for the balance at 6 months. Show all these transactions in B's Ledger.

(*Chartered Accountants.*)

35. Prepare an Income and Expenditure Account from the following Trial Balance of a club, taken out on the 31st December—

Rent for the year	£500	
Rates, Taxes, Lighting, and Insurance for the year	436	
Sundry Creditors		£1,322
Entrance Fees		36
Cash at Bankers'	30	
,, in hand	2	
Secretary's Remuneration	150	
Sundry Debtors	37	
Subscriptions paid in advance		160
Furniture, Fittings, and Fixtures	1,281	
Stewards' and Servants' Wages	600	
Structural and other Improvements to Club House	1,684	
Printing, Stationery, Newspapers, etc.	145	
Law Charges	18	
Annual Subscriptions		2,173
Card and Billiard Room Receipts		123
Washing, Liveries, and Sundries	107	
Wines, Spirits, Cards, and Cigars sold		433
Repairs to House and Furniture	409	
Conversazione Expenses	95	
Wines, Spirits and Cigars purchased	341	
Stock of Cigars (1st Jan.)	15	
Interest on Loan	6	
Special Call made on Members		314
Excess of Income over Expenditure brought forward from last account		1,295
	£5,856	£5,856

£123 has to be written off the furniture, fixtures, and fittings, and £100 off the structural and other improvements. There is no stock at the end of the year.

(*Chartered Accountants.*)

36. D, E, and F entered into partnership on the 1st January, their capitals being—

D	£3,000
E	2,000
F	1,000

and the profits were to be divided—

D $\frac{7}{16}$ E $\frac{5}{16}$ F $\frac{4}{16}$

Each partner was to be credited, before the final division of profits, with interest on his capital at the rate of 5% p.a., and F was, in addition, to be credited with £200 a year for management. The drawings were to be charged with interest,

monthly, at the same rate as on the capital. The several partners' drawings were as follows—

D		E		F	
1st March	£100	1st January	£50	1st March	£75
1st May	75	1st February	50	1st June	75
1st July	125	1st April	50	1st August	100
1st September	50	1st August	100	1st October	50
1st November	50	1st October	70	1st December	50
		1st December	30		

On the 31st December, the books were closed and after ample provision had been made for bad and doubtful debts, depreciation of stock, plant, etc., but before interest upon capital and drawings had been adjusted, or F's salary had been charged, there was a balance of profit on the Trading Account of £2,500. Make the necessary calculations of interest, give effect to the arrangement for F's salary, divide the net profits as arranged, and make a final statement showing the position of each partner. *(Chartered Accountants.)*

37. You are appointed book-keeper to an old-established business which has recently been converted into a public limited company. Give rulings of any books which it would be necessary for the new company to keep, other than the ordinary books of account which are already in existence, and need no amendment.

38. Enter into Journal and Cash Book the following transactions of a Limited Company—

The company was registered on the 1st January with a Nominal Capital of £120,000, divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the vendor as part purchase consideration, 40,000 offered for subscription to provide working capital, payable as to 5s. per share on application, 5s. per share on allotment, and the remainder in two calls of 5s. each; 40,000 shares to be held in reserve for future issue. The vendor also received £10,000 in 5 per cent debentures, being the balance of the purchase consideration.

Jan. 5. Applications were received for 35,000 shares.
6. Allotment made of 35,000 shares.
10. Amount due on allotment of 35,000 shares was received.
Feb. 10. First call of 5s. per share was made, payable on the 24th February.
10. 40,000 fully-paid Shares allotted to the vendor.
10. 5 per cent debentures issues to vendor for £10,000, balance of purchase-money. *(Chartered Accountants.)*

39. Jones, Brown & Robinson were partners in a business profits and losses being divided—Jones $\frac{2}{5}$ths, Brown $\frac{2}{5}$ths, and Robinson $\frac{1}{5}$th. The partnership was dissolved as on 31st December, on which date the position of the firm was as follows—

BALANCE SHEET

Capital—			Sundry Assets		£10,620
Jones	£3,000		Debtors—		
Brown	2,100		Robinson	£500	
		£5,100	Sundry	2,000	
Loans—					2,500
Jones	£500		Cash in hand		120
Smith	800				
		1,300			
Sundry Creditors		5,840			
Bank Overdraft		1,000			
		£13,240			£13,240

The expenses of dissolution were £120. Jones took over the business, paying £7,850 for the "Sundry Assets," and £2,500 for the Goodwill. Prepare an account, as between the partners, showing the result of the dissolution.
(*Chartered Accountants.*)

40. Prepare Journal entries to record the following transactions in the books of a limited company: 200 shares of £1 each, 15s. called up, and on which 5s. per share had been paid, were forfeited and subsequently sold to X for £130, credited with 15s. per share paid up. (*Chartered Accountants.*)

41. The following is stated in a Brewery Company's report to have been the result of the year's working—

Profit for the year	£120,000
of which there has been paid or charged—	
Interest on Debenture Stock	40,000
Interest on Mortgages and Deposits	10,000
Directors' and Trustees' Fees, Income Tax, and Management Expenses	16,000
Loss on houses taken under the Licensing Act, 1904	5,000
Compensation Levy under the same Act	5,500
Dividend on Preference Shares	15,000

and it is recommended that the balance be carried to Reserve Account. Make the Journal entries to record the above appropriations, and post to their respective Ledger Accounts. (*Chartered Accountants.*)

42. The General Trading Company, Ltd., carry on business as Merchants. The capital of the company is £40,000, divided into 20,000 Ordinary shares of £1 each, all of which have been issued and are paid up to the extent of 15s. per share, and 20,000 6 per cent Preference shares of £1 each, of which 15,000 have been issued, and are fully paid up.

From the Trial Balance below for the year ending 30th June prepare Departmental Trading Accounts, showing gross profit of each department, and apportion the expenses in proportion to the turnover of each department.

The business of the company is divided into four departments—

A. Iron and Steel;
B. Coal;
C. Machinery and Too s;
D. Sundries.

Write 10 per cent depreciation off Furniture and Fittings, provide £300 for Bad Debts, and 2% on the debtors for Discounts.

The Stocks on hand on 30th June were: A, £3,000; B, £1,000; C, £700; and D, £980.

No dividends have been received on the shares in the Coal Mining Syndicate, Ltd., and the directors have decided to place £3,000 to a Reserve Fund, to provide for the depreciation in value of these shares.

Prepare Profit and Loss Account and Balance Sheet.

TRIAL BALANCE—30TH JUNE

Ordinary Share Capital		£15,000
Preference Share Capital		15,000
Stocks, 1st July, Department A	£2,300	
,, ,, ,, B	1,100	
,, ,, ,, C	400	
,, ,, ,, D	700	
Purchases, Freight Duty, etc. Depart. A	16,000	
,, ,, ,, ,, B	27,000	
,, ,, ,, ,, C	12,000	
,, ,, ,, ,, D	13,000	
Sales, Department A		30,000
,, ,, B		37,000
,, ,, C		15,000
,, ,, D		18,000
Sundry Debtors	23,000	
Bills Receivable	5,000	
Sundry Creditors		12,000
Bills Payable		1,500
Office Furniture and Fixtures (original cost £2,160)	1,080	
Rent, Rates, and Insurance	1,800	
Marine Insurance	2,400	
Travellers' Salaries and Expenses	5,400	
Office Salaries	1,800	
Commission	1,200	
Advertising	4,800	
Stationery and Printing	2,700	
Telegrams and Stamps	600	
Bank Charges	120	
Discounts and Exchange	1,500	
Incidental Expenses	900	
Directors' Remuneration	3,000	
Coal Mining Syndicate Shares	6,000	
Germanic Bank (Limited)	3,550	
Banque de la République	2,500	
British Bank (Limited)	3,500	
Income Tax Reserve Account		300
Dividend Account—Half-year's Dividend on Pref. Shares, 31st Dec.	450	
	£143,800	£143,800

43. The Chiddingfold Manufacturing Co., Ltd., was registered with a nominal capital of £100,000 divided into 50,000 6% Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each.

The books of the company were balanced as on 31st January, on which date a Trial Balance, containing the following balances, was extracted from the books—

Carriage, Dock Dues, and Freight	£4,773
Advertising	649
Fuel, Lighting, and Water	2,163
Postage and Incidentals	590
Catalogues and Price Lists	416
Packing	542
Machinery Repairs	177
Stable Expenses	913
Office Expenses, Stationery, and Telephone	1,022
Ordinary Share Capital A/c	5,000
Six per cent Preference Share Capital Account	20,000
Debenture Capital Account (200 Debentures of £100 each at 4½%)	20,000
Employees' Superannuation Fund	4,360
Debenture Interest	855
Directors' Salaries	1,095
Buildings Account	903
Machinery and Plant A/c	8,750
Stock on hand (Feb. 1st)	38,672
£5,000 Consols (at cost) (Investment of Employees' Superannuation Fund)	4,360
Cash in hand	£210
Horses and Carts	720
Transfer Fees	1
Purchases	102,664
Purchases Returns	3,748
Factory Wages	12,704
Salaries and Travellers' Commission	10,691
Rents, Rates, Taxes, and Insurance	3,173
Sales	174,493
Sales Returns	6,619
Discount Account (Debit Balance)	2,762
Bad Debts written off	203
Bank Charges and Interest	42
Legal Expenses and Audit Fee	418
Company's Contribution to Superannuation Fund	516
Debtors as per Sales Ledger	19,876
Creditors as per Bought Ledger	4,340
Bills Payable	320
Cash at Bank	5,784

Before closing the books the following adjustments are necessary—

1. Telephone Rent paid in advance £25
2. Travellers' Commission owing 342
3. Rent due 379
4. Insurance unexpired 541
5. Provide for Discounts, etc., on Sundry Debtors . 500
6. Write off the following Depreciations—
   Machinery and Plant, 10 per cent
   Carts and Horses, £214.

Assume any other necessary figures.

The Stock on hand as on 31st January was valued at £34,839.

The Directors decide to write off the whole of the Buildings Account and to transfer £7,000 to Reserve Account from the profits of the year.

You are required to prepare a Trading and Profit and Loss Account for the year ended 31st January, and a Balance Sheet as on that date.

Assume any other necessary figures

CHAPTER XVII

COST ACCOUNTS

THE subject of Cost Accounts has become very important in recent years owing to the complex conditions under which modern commerce is carried on, and many volumes have been written on the subject. The keen competition which prevails renders it necessary that a business man should keep accurate and systematic records by means of which he can ascertain the actual cost of the goods he manufactures, or of the contracts he carries out. This he does by keeping Cost Accounts, which may be defined as a system of recording in accounts the materials used and labour employed in the manufacture of a certain commodity or on a particular job. The student should remember that the Cost Accounts are as a rule quite distinct from the Financial Accounts, although they are both written up from the same data and should always if possible be co-ordinated. It may be further noted that in a proper system, the Financial Books and the Cost Books are kept in such a manner that they agree (at least approximately); the former showing the *total* Works profit, and the latter the result of *each* of the operations at the Works.

Costing. The Institute of Cost and Works Accountants says that costing comprises the following—

(*a*) The allocation of expenditure to cost accounts relating to services, production centres and departments;

(*b*) the assembly and classification of records relating to output, operations, processes and to the use of facilities;

(*c*) the determination of actual and standard costs of products, orders, jobs, and other cost units by means of the above information;

(*d*) the investigation, measurement and explanation of differences between actual and standard costs and performances;

(*e*) the examination of schemes and proposals from the standpoint of cost and their probable effect upon sales, selling prices, profits, and working conditions;

(*f*) the presentation of such information in a lucid and convenient form;

(*g*) the interpretation and explanation of all cost records, information and results in terms most suitable for the control and administration of the business concerned.

CLASSES OF COST ACCOUNTS

Although the principles of Cost Accounts are applicable to all businesses, the details vary considerably according to the business or

industry for which they are required. The following are the classes into which they are usually divided—

(1) **Terminal or Contract Cost Accounts,** applicable to undertakings where definite contracts are entered into, in which the cost is definite and terminating; e.g. Building, Ships, etc.

(2) **Operating or Working Cost Accounts.** These are used for railways, tramways, gas and water undertakings and the like.

(3) **Single or Output Cost Accounts,** suitable for breweries, collieries, quarries, mines and similar industries, in which there is a natural unit of cost, such as the barrel brewed, the ton raised, etc.

(4) **Multiple Cost Accounts.** This method is applicable to undertakings in which a number of products are involved bearing little or no apparent relation to each other in cost or selling price; e.g. cycles, hosiery, boots, furniture.

(5) **Process Cost Accounts** are used in manufacture carried on by processes in which the product of one process becomes the material of a subsequent process. They are used to ascertain the cost of each stage of manufacture.

(6) **Departmental Cost Accounts** are used to ascertain the results of the trading of departments of a business.

OBJECTS OF COST ACCOUNTS

The primary object of Cost Accounts is to enable the manufacturer to ascertain the prime cost and total cost of the articles he manufactures or the contracts he undertakes. Other advantages which may accrue are enumerated below—

1. They show not only whether or not a profit has been made on the working of the business as a whole, but whether or not a profit has been earned on each department, or process, or job.

2. The selling price of goods can be fixed with greater certainty, in order to realize the desired percentage of profit.

3. Waste of time and stores can be detected and steps taken to prevent a recurrence of the leakages.

4. They provide valuable data for estimating, or tendering for important contracts; and for comparison of the results of different manufacturing periods.

5. In certain factories a standard cost control system can be designed. Such a system is linked to budgetary control and the whole of the productive capacity of the factory controlled against predetermined standards. This results in more efficient administration and effective use of resources, when variations from standards are effectively investigated.

6. Where for certain reasons an industry is required to adopt a general policy with regard to prices, government contracts or foreign sales, then uniform cost systems are designed which result in effective measurements of costs for comparative purposes.

7. Management should be provided with a basis of operating policy for which it may require information with regard to marginal cost or the calculation of the "break-even point."

[Marginal cost is the amount by which aggregate costs are increased when the units produced are increased by one unit. The break-even point is the point where total cost equals total sales.]

Components of Cost. In order to arrive at the total cost the following factors must be taken into account: (1) Labour, (2) Materials, (3) Direct expenses of production and motive power, (4) Indirect expenses, viz. selling, distribution, and administration.

Prime Cost. Those direct items of cost which, entering into and forming part of the product are charged directly to the product, i.e. (*a*) direct material, (*b*) direct labour, (*c*) direct expenses, are called the Prime Cost.

Production Overhead. These expenses of production, or Works Oncost, consist of—

1. Rent, rates, taxes, and insurance of factory.
2. Motive power, fuel, gas, water, lighting, and heating.
3. Patent fees and royalties.
4. Non-productive wages of storekeepers, firemen, enginemen, time-keepers, factory clerks, superintendents, and managers.
5. Repairs, renewals, and depreciation of plant, machinery, tools, land, and buildings, etc.

Total Cost. To arrive at the *total cost*, the production overhead and the indirect expenses must be added to the Prime Cost.

Indirect Expenses. Indirect expenses comprise—

1. Rent, rates, taxes, and insurance of office, shops, warehouse, showrooms, etc.
2. Lighting, heating, and water rate of premises.
3. Travellers' salaries and commissions.
4. Salaries of assistants, counting-house staff, and manager, directors' fees.
5. Carriage outwards, packing materials, printing, stationery, advertising, etc.
6. Bad debts, discounts, etc.
7. Depreciation of furniture, fixtures, and fittings.
8. Interest on capital, loans and debentures, bank interest, etc.

Selling Price. When the total cost is ascertained, it only remains to add the percentage of profit required, in order to arrive at the selling price, which is compiled as shown on the next page. But it must not be assumed that selling price is always arrived at from the cost figures as shown. In many businesses the rule in practice is that an article is sold for the best price it will fetch, which, according to market conditions at the time in question, may be more or less than the theoretical "target" selling price as computed by adding *x* per cent on to cost.

	£
Productive Wages	....
Direct Materials and Charges thereon	....
PRIME COST	....
Works Oncost or Overhead (W.O.H.)	....
FACTORY COST	....
Office Oncost or Overhead (O.O.H.)	....
TOTAL COST	....
Profit percentage (*x* per cent)	....
SELLING PRICE	....

Note 1. Some accountants use the term "Flat Cost" to signify the cost of labour, material, and direct expenses of production.

Note 2. The indirect expenses are often spoken of as Burden, Oncost, Overhead, Fixed, or Establishment Charges, the terms being synonymous.

Note 3. It is not infrequent to find Indirect Charges, or Overhead, divided into Production Overhead, Selling Overhead, Distribution Overhead, and Administration Overhead.

A close study of the table on the next page should convey a clear idea of the components of cost.

For the purposes of Cost Accounts it is necessary (1) to analyse the direct wages and materials used so that the proper amount can be allocated to each job or contract, and (2) to apportion the remaining expenses in such a manner that each job and contract bears its fair share.

LABOUR IN A COSTING SYSTEM

Labour in a costing system falls under two classes, namely—

(*a*) **Direct** labour, which can be measured and directly charged to a job, or order, or product.

(*b*) **Indirect** labour, which cannot be specifically charged to a job, but is apportionable on a logical plan.

Labour is measured by "time" and "money" and is a most important element of cost, and in any costing system adequate provision for control over expenditure on wages must obtain. Minute and accurate details of "time" and "money" expended must be made, and the following information is intended to convey a general view of modern and scientific methods employed which secure adequate "control" of this element of prime cost.

First then as to control of "time."

The somewhat unreliable method of the time book in the hands of the watchman has been superseded by the mechanical time check upon arrival and departure of employees, familiarly referred to as "clocking on" and "clocking off." In most factories there is now installed, near the gate entrance, a mechanical time-recording clock

TABLE OF COMPONENTS OF COST

TOTAL COST								
FACTORY COST				ESTABLISHMENT CHARGE				SELLING PRICE
PRIME COST	PRODUCTION OVERHEAD (FACTORY ONCOST)			SELLING		OFFICE		
	Material	Labour	Expenses	General	Sales Office	General	Administration	
Direct Mater al Direct Labour Direct Expenses	Indirect Material Scrap Mater a Supplies Loose Tools	Non-productive Wages of— Storekeepers Firemen Enginemen Time-keepers Factory Clerks Superintendents Managers, etc. Labour on defective or experimental work	Factory— Rent Rates Taxes Insurance Motive power Fue Gas Electricity Water Lighting Heating Repairs Renewals Depreciation of all classes of Plant, etc.	Advertising Samp es Salesmen's Salaries and Expenses Travelling Carriage and Cartage Outward Warehouse Expenses	Rent Clerks' Salaries Telephone and Telegraph Postages, etc. Printing and Stationery Miscellaneous	Postages Salaries Rent Light and Heat Telephone and Telegraph Printing and Stationery Depreciation of Office Plant Office Supplies	Bad Debts Discounts Interest on Capital, Loans, Debentures, etc. Executive Expenses Directors' Fees	The selling price is determined as follows— Direct Materials Direct Wages Direct Expenses + Overheads of— Production Selling Distribution Administration + % for Profit = Selling Price

Each employee is supplied with a "gate card" upon which is shown—

1. His or her official number.
2. His or her name.
3. Particulars of period, i.e. date of the week covered by the card.
4. Space provided for mechanical record of times of "arrival" and "departure" in the course of the week.
5. Space for extension of number of hours worked, etc.

On each "arrival" and "departure" the employee places the gate card in a slot below the pendulum of the clock, depresses a lever, and upon the card is stamped the actual time he makes the operation, which is, of course, either the time of arrival or departure.

On each side of the clock is a rack into which the employee's card is placed after stamping; one side is marked OUT, and the other side is marked IN. On entering the factory, the employee withdraws the card from the OUT rack, stamps it, and places it in the IN rack. The opposite operation takes place when leaving.

At the end of the pay week the wages clerk collects the gate cards, replacing them by a fresh set for use on the ensuing week.

The time worked by each employee is ascertained from the cards and extended in the appropriate columns; other particulars are filled in, and the final *net* sum payable to the employee is entered at the foot of the card.

The advantage of the mechanical time record is that the employees make their own record, and, once made, it cannot be tampered with or altered without challenge.

Not only is mechanical control of time applied in this way, but it is used for control of jobs. A workman when engaged on a "job" receives a job card upon which are all particulars of the work to be done. On the back of the same card there are spaces provided for recording the time. The time registered shows how long the employee was on the "job."

METHODS OF PAYMENT OF WAGES

There are many methods of remuneration of labour, and it may be stated that methods applied are intended to react in the mutual interests of all concerned. Six methods are briefly touched on, and are as detailed below.

1. **Time Rates** are more generally paid on indirect labour, and obtain where work cannot be standardized or graded for piece rating. The system is probably most largely used in practice as it is the only satisfactory system for many kinds of work, e.g. transport workers.

Unless subject to very close supervision, "time rates" would seem an extravagant means of remuneration.

2. **Piece Rates.** There are many varieties of this type, which may be conveniently divided into (*a*) Flat piece rate, and (*b*) Bonus systems.

All piece rates depend for their efficiency upon the exactness with which the rates are fixed, as discontent among the workers may be caused if the price proves to be unremunerative to either party and has subsequently to be altered, particularly when it has to be reduced.

The operation of the Flat Piece Rate is as follows—

The time that should be taken to complete a task at a good normal speed is first ascertained by the rate fixer. The amount of money that should be earned by that class of worker and in that period of time is then calculated according to the minimum wage that should be paid to that worker for a full week. A simple division will give the amount per piece. This is established as the piece-work rate. Working at a normal pace the worker can thus earn the minimum whilst there is the incentive to work a little more rapidly and earn more money; a state of affairs which is obviously beneficial to both parties.

3. **Bonus Systems.** Under these systems of payment of wages there is taken into consideration the ratio that "work done" bears to "time taken."

Two schemes under bonus methods of remuneration are chosen for consideration, namely, the Halsey and Rowan systems. Other schemes are employed, but they more or less approximate in effect to the two methods explained below.

Halsey Bonus Scheme. The Halsey scheme provides for a bonus of 50 per cent on hours saved at the usual rates per hour. The scheme works out as under—

Forty-four hours were allotted for a piece of work at 2s. 6d. per hour. The work was completed in 33 hours, with the following result—

			£	s.	d.
Time allowed	44 hours				
,, taken	33 ,,	@ 2s. 6d. per hour . .	4	2	6
,, saved	11 hours				
Bonus will be earned on 11 × $\frac{1}{2}$ = $5\frac{1}{2}$ hrs. @ 2s. 6d. .				13	9
		Total Wages . .	£4	16	3

Rowan Bonus Scheme. The Rowan scheme provides for a bonus of a percentage increase of pay equal to the percentage the hours saved bears to the hours allotted, which percentage will be added to amount earned on work done. Applying the above example, the result yields the following—

	£	s.	d.
Time taken, 33 hours @ 2s. 6d. per hour	4	2	6
Bonus is arrived at on the following formula—			
$\dfrac{\text{Time saved 11 hours} \times 100}{\text{Time allotted 44 hours}}$			
Reduction of above formula shows 25 per cent.			
Therefore, 25 per cent of £4 2s. 6d. will be added	1	-	8
	£5	3	2

4. **Efficiency Pay.** Efficiency pay is granted to employees beyond a day wage for their completion of work in the minimum of time on skilled work. The rate of increase moves within the margin of 5 per cent and 40 per cent, and is applied according to efficiency beyond the 65 and reaching toward the 100 per cent standard.

5. **Priestman Plan.** The Priestman plan is a bonus on output. It moves according to the following circumstances—

A standard output is agreed upon by the management and the employees' representatives. Now, according to output beyond the standard, a bonus "at the rate of increase" is granted to the employees.

6. **Profit-sharing Schemes.** Profit-sharing is applied with the object of developing mutual interests as between employer and employed.

PAYING WAGES

In firms of any magnitude this operation requires very skilful handling. First, a pay roll has to be prepared, which roll is made up from the gross time records. At the foot of the pay roll (or pay rolls) a coin summary showing the amounts required under each denomination is required, i.e. how many £1 notes, 10s. notes, silver coins, etc. For speed and accuracy in compiling the pay sheets a Wages Adding Machine should be employed. A Wages Abstract as required for Costing is appended for examination by students, as it is the document from which the Cost Ledger is finally posted.

WAGES ABSTRACT

Contract 1		Contract 2		Contract 3		Contract 4		Contract 5		Expenses	Summary
No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount		
											1
											2
											etc.

NOTE 1. See also page 806 with reference to the posting of the summary column.
NOTE 2. Direct labour on work other than Contracts, such as **Machinery** Repairs, must appear under appropriate columns which will not be posted to the Cost Ledger as this is a part of the Production Overhead.

Forms of Job Card and Time Sheet are illustrated on the next page. The foreman is responsible for the proper completion of these.

JOB CARD.—Piecework

Job No.................. Man's No.................. Name..

Description of Work.. Reference..............

Date and Time Commenced................................... Foreman's Initials..............

Date and Time Finished.. ,, ,, ...

Week Ending	M.	T.	W.	T.	F.	S.	Tota	Remarks

TIME SHEET

Workman's Name.. Date ....

Workman's No.................. Occupation ....

Job No.	Name of Customer	Particulars of Work done	Hours Time	O'time	Rate	Amount £	s.	d.

(Signed)...Foreman.

These sheets, after being used for the writing up of the Wages Abstract, are eventually sent to the Cost Office, and the amounts are summarized and posted to the jobs in the Cost Ledger.

MATERIAL IN A COSTING SYSTEM

Control of "stores" is all-important in a costing system, and to this end the movements IN and OUT of raw material, supplies, etc., must be subject to the severest possible means of check. A summary of the ways by means of which this control is effected is given below under brief explanations of the use to which various cards and books are put in the costing system.

1. **Store Record Card.** The Store Record Card is provided with rulings to show a full description of the material; the bin number; particulars of Order No., Suppliers, Price, Quantity; particulars of Date, Requisition No., Quantities of Material "IN" and "OUT"; and, finally, a balance column, which should show the amount of material in store on any given date. The card also contains rulings

to indicate the "minimum" and "maximum" quantities of the material stored. Stores Record Cards are kept in the cost department. A specimen is appended.

STORES RECORD CARD

Bin No	STORES RECORD CARD	Req. No.
	Description of Material—	Date
		Minimum
		Maximum

RECEIVED FROM MERCHANTS				(a) ISSUED TO WORKS ORDERS, ETC. (b) SURPLUS ON REQUISITION RETURNED				BALANCE
Order No.	Suppliers	Price	Quantity	Date	Reqn. No.	(a)	(b)	

BIN CARD

BRIEF DESCRIPTION OF MATERIAL— .... BIN NO. ....

Received					Issued					
Date	Quantity or Weight	Date	Quantity	Balance	Date	Quantity	Balance	Date	Quantity	Balance

2. **Bin Card.** Bin cards are specially ruled to show particulars of materials received into or withdrawn from stores. The storekeeper

responsible for control of stores attaches a bin card to each bin, locker, shelf, or receptacle for materials. On every occasion when stores are received or withdrawn the storekeeper will carefully record in appropriate columns particulars relating to such movements of material under his control (Specimen on page 784.)

3. **Stores Requisition.** In a well-organized manufactory, etc., a storekeeper would be authorized not to issue materials from store without special authorization. A stores requisition is a card (or document) which is handed to the storekeeper to empower him to issue the stores mentioned. Usually the stores are requisitioned for use on a specific job, and the stores requisition will contain a reference to the Works Order upon which the material is to be used. A ruling of such a form is appended.

STORES REQUISITION

No.............
STORES REQUISITION
Job No.............

Particulars:

STORES REQUISITION

Stores Requisition No. ....19..........

Quantity	Description	Rate	Fo.
	JOB NO.		

Signed........................ *Man's No.*.........£

4. **Stores Received Book.**
5. **Stores Issued Book.**
6. **Stores Ledger.**

} Specimens on pages 786, 787.

The above three books are designed to contain complete details of all goods received and disposed of respectively; the Stores Ledger containing in summarized form particulars of goods both received and issued. The above three books are analogous to the "Purchases," "Sales," and "Ledger" with which the student is familiar. The functions are similar; the Stores Received and Stores Issued Books being subsidiary to the Stores Ledger, which contains the financial record of stores; the balance of which account should indicate the actual value of stores in hand at any given date.

Material purchased for a particular job can be charged direct to that job in the Cost Ledger from the invoice; all other purchases will be debited to stores and charged to their respective jobs through the medium of the requisitions. A suitable form of Purchase Analysis Book is given on page 788.

STORES RECEIVED BOOK

Date	Order No.	From Whom	Particulars	Stores Ledger Folio	Quantity				Price	Amount	Remarks
					No.	cwts.	qrs.	lbs.			

STORES ISSUED BOOK

Date	Requisition No.	Particulars	To Whom or for What Purpose	Stores Ledger Folio	Quantity				Price	Amount	Remarks
					No.	cwts.	qrs.	lbs.			

STORES LEDGER

(Name of Material or Article) ....

Dr. Receipts									Issues *Cr.*								
Date	S.R. Book Folio	From Whom	Quantity				Price	Amount	Date	S.I. Book Folio	To Whom	Quantity				Price	Amount
			No.	cwts.	qrs.	lbs.						No.	cwts.	qrs.	lbs.		

Note 1. This Ledger would be posted up daily from the Stores Received Book and the Stores Issued Book.

Note 2. The balance of the two sides should show the quantity of each article in stock at any time, and thus facilitate and check the process of stocktaking. Due allowance must, of course, be made for shrinkage and wastage.

PURCHASE ANALYSIS BOOK

Date	Name	No. of Invoice	Ledger Folio	Amount	Goods and Materials purchased direct			Goods and Materials purchased for Stock		Other analytical columns	Other analytical columns
					No. of ob	Cost Led. Folio	Amount	Stores Led. Folio	Amount		

The totals of the various columns of the purchase analysis will be posted in the ordinary way to the debit of the respective nominal accounts, the account recording "Materials purchased direct" agreeing with the amount charged in the cost accounts to customers, or to jobs on hand that will eventually be charged to customers.

All expenses chargeable direct to jobs will also be debited in the Cost Ledger to the proper accounts, and the total direct expenses debited to a direct expenses account in the financial books from the Cash Book, Petty Cash Book, etc.

7. **Materials Abstract.** A Materials Abstract is prepared from the Requisitions and Materials Returns to show the allocations of stores issued, and is in the nature of the complete analysis of material requisitioned. A specimen is appended.

MATERIALS ABSTRACT

(*A*) Requisitioned to Contracts

No. 1		No. 2		No. 3		No. 4		No. 5	
Req. No	Amount	Req. No.	Amount	Req. No.	Amount	Req. No.	Amount	Req. No.	Amount

(*B*) Requisitioned for Factory and Offices

Plant		Loose Tools		Sundries	
Req. No.	Amount	Req. No	Amount	Req. No.	Amount

(*C*) Summary

Nos.	(*A*) *Contracts*	(*B*) *Factory and Offices*	
1	£	Plant . . .	£
2	£	Loose Tools . .	£
3	£	Sundries . . .	£
4	£		
5	£		
		Total Requisitioned—	
		(*A*) Contracts £........	
		(*B*) Factory £........	£........

((*A*), (*B*), and (*C*) should follow in One line.)

Note. Goods made for stock are allotted a Contract number in the same way as goods made to order.

COST LEDGER

Job No.........................

Period ending	Debits					Credits		Prime Cost	Establishment Charges	Total Cost
	Stores	Special Materials	Wages	Direct Expenses	Total	Stores Returned	Total			

8. **Cost Ledger.** This Ledger is prepared with a view to bringing into one view the various components of cost incurred in the carrying out of a job, contract, etc. It is compiled from data supplied by the following statistical and other books—

(*a*) Abstract of Wages.
(*b*) Abstract of Materials.
(*c*) Purchases Journal.
(*d*) Cash Book.

It is from the Cost Ledger that an attempt at reconciliation with financial accounts is made. (See previous pages for specimen of Cost Ledger.)

OVERHEAD OR ONCOST

"Overhead" is a technical term used in Cost Accounts to denote all expenditure which cannot be directly charged to the articles manufactured or work done.

So far only the allocation of wages and materials has been dealt with, but it is clear that *all* the expenses of the business not directly charged to the cost accounts must in some way or other be apportioned in an equitable manner to the various orders executed. The method of distributing this expenditure has given rise to much controversy, and many systems are in vogue, among which the following may be mentioned—

1. **The "Machine-rate" Method.** This signifies a charge of so much per hour for each tool or machine used, in addition to the cost of wages and material consumed. In arriving at the number of hours over which to spread the charge the *effective* hours only must be considered, time lost on breakdowns and cleaning being ignored.

2. **The "Hourly-burden" Plan.** By this method the total expenses are ascertained and divided over the number of hours worked. The weakness of this system is that no discrimination is made between expensive and cheap machinery, and, therefore, it is accurate only when the class of machinery used is uniform. For this reason it is often worked by groups of machines.

3. **Percentage on Wages.** Fairly accurate results may be made by this method if the work and the conditions do not vary much, but it does not discriminate between expensive and cheap machinery, nor is it equitable where wages form a small proportion of the total cost.

4. **Varying Rates for Different Items of Expenditure.** By this method items such as rent, rates, taxes, lighting, heating, etc., are apportioned according to the floor space occupied by each shop. Gas, water, electricity can be measured by means of separate meters

for each shop, and power may be charged at a rate per horse-power of each machine.

5. **Charging Production Overhead and General Overhead Separately.** When this method is used, the amounts of the manufacturing expenses (production overhead or factory oncost) and the administration, distribution, and selling expenses are ascertained and dealt with separately. With regard to the production overhead the question to be decided is, On what basis shall the calculation be made? Shall it be on the cost of labour only? materials only? or on labour and materials? Most accountants are of opinion that the calculation should be based on the cost of *labour* only, as this is a more constant factor than is material. In the first instance the charges will have to be an estimate based on the experience of similar businesses, but at the end of the first year's trading the Profit and Loss Account will supply valuable information. Suppose, for instance, that the Trading and Profit and Loss Account shows Material Consumed, £20,000; Productive Wages, £9,000; Factory Expenses, £3,600; Administration Expenses, £4,890. From these figures it is found that the Works Cost is—

	£
Materials consumed	20,000
Productive Wages	9,000
Prime Cost	29,000
Production Overhead .	3,600
Works Cost	£32,600

so that the Production Overhead, £3,600, is 40 per cent of the Productive Wages, £9,000. General Overhead, £4,890, which is calculated on Works Cost, £32,600, is 15 per cent, and future calculations would be made on this basis, e.g.—

Materials consumed	£ ....
Productive Wages	£ ....
Prime Cost	£ ....
Add Production Overhead 40 per cent on Wages .	£ ....
Factory Cost	£ ....
Add General Overhead 15 per cent on Factory Cost	£ ....
Total Cost	£ ....

When a job is completed and all the time sheets and requisition notes have been entered in the Cost Ledger (a ruling of which is given), the overhead is added, also the percentage for profit, and the entry is then passed through the Sales Journal, and debited to the Customer's Account in the Sales Ledger.

Percentages on Returns. It may be pointed out that in adding percentages for profits the percentages should be based on returns. For instance, on an article costing £10 and sold at £13 6s. 8d., there is a profit *on cost* of $33\frac{1}{3}$ per cent, but *on the return* it is only 25 per cent. The following table may be of service for calculating profits.

Add to	cost	50	per cent	to give	$33\frac{1}{3}$	per cent	*on return*
,,	,,	$33\frac{1}{3}$	,,	,,	25	,,	,,
,,	,,	25	,,	,,	20	,,	,,
,,	,,	20	,,	,,	$16\frac{2}{3}$	,,	,,
,,	,,	$12\frac{1}{2}$	,,	,,	$11\frac{1}{9}$	,,	,,
,,	,,	10	,,	,,	$9\frac{1}{11}$	,,	,,

Formula for Finding Percentage Required.

$$\frac{\text{Percentage Required} \times 100}{100 - \text{Percentage Required}}$$

Example. The percentage required on return is 20 per cent.

$$\frac{20 \times 100}{100 - 20} = \frac{\cancel{20} \times \overset{25}{\cancel{100}}}{\underset{4}{\cancel{80}}} = 25 \text{ per cent to add to cost price.}$$

Units of Output or Earning. The following units of output or earning are generally in use—

Breweries—per barrel of beer brewed.
Brickworks—per 1,000 bricks made.
Collieries—per ton of *saleable* coal raised.
Mines—per ton of ore raised.
Hotels—per visitor per day.
Gasworks—per ton of coal carbonized, and per 1,000 cubic feet of gas sold.
Waterworks—per 1,000 gallons of water consumed.
Electric Light Works—per ton of coal used, and per 100 Board of Trade units of electricity sold.
Railways—per ton carried, and per train-mile run.
Trading Businesses with a miscellaneous output—per £100 of sales.

Experimental Cost Sheets. Fabric manufacturers when experimenting upon "new" lines usually draw up what are known as experimental cost sheets, which furnish the management with details of the cost of half-a-dozen fabrics. Apart from the details of cost of manufacture, these sheets contain specifications as to measurements, class of material, buttons, style of cut, etc. In fact, an experimental cost sheet will bear a significant number, which will

be used upon all future work on the fabric should the initial result justify the management in putting it before their wholesale buyers.

Standard Costs. In the case of businesses making goods for stock or doing repetition work of any kind, cost statements will be obtained which will act as standards for future use, and the use of these standards is most important. It has in the past too often been assumed that, because an article has been turned out to sell at a certain figure the same article can always be turned out at the same cost. The standard will indicate the exact materials used, the type of labour employed and the time taken, and it is obvious that these points must be watched at every repetition if the profits are to be maintained. Where it has been found possible to produce at a lower figure than the standard cost the reason for the reduction will be clearly shown and a new standard cost sheet prepared.

Interest in Cost Accounts. One of the items of expense over which there is perhaps the greatest controversy is interest on the capital employed. There is, in fact, no direct answer as to whether interest should or should not be included, as opinions of even experienced Cost Accountants will differ.

From an examination standpoint, the examinee should not be dogmatic, whilst any opinion expressed should be supported by tabulating the arguments for and against.

For cost purposes interest can be classified as follows—

(*a*) Interest actually paid, for example debenture interest.
(*b*) Interest based on the capital sunk in the business.
(*c*) Interest based on the "productive" capital, such as plant and machinery.
(*d*) Interest incurred as a result of undertaking a special contract.
(*e*) An arbitrary fixed annual charge in the form of a percentage on the issued capital.

The following are the arguments "for" and "against"—

Arguments For—

1. The real profit is not shown until the interest charge has been made.
2. If interest is not included, incorrect values of stores held for maturity will be charged to the Cost Accounts.
3. Comparative costs of similar products carried out on different sets of machinery cannot be made if interest is not included, and the machinery comprising each set is of a different nature and/or value.
4. Interest is a legitimate charge to the cost of production when incurred in respect of a specific contract, for example interest

payable on a loan or bank overdraft to finance a specific contract.

5. Interest is an element of cost just the same as are materials or wages.

6. Interest should be included in order to ascertain the true maintenance costs of heavy stocks.

7. The "time" element is recognized in cost by the inclusion of such items as rent, rates, power, lighting, etc., as a percentage on direct labour, in the computation of machine hour rates, etc.; and, therefore, as interest is the reward of waiting, the true cost can be ascertained only if this item is included.

Arguments Against—

1. Although interest paid is an expense, it is of a purely financial nature and due to the different arrangements of individual concerns, and is not actually an element of cost.

2. Interest is an appropriation of profit.

3. Great difficulty in computation for cost purposes.

4. Comparison of costs between different firms vitiated by inclusion as even if all include this item costs will be based upon different "degrees."

5. Interest would have to be written back in the Cost Accounts for the purpose of reconciliation with the financial accounts unless only the exact amount paid has been charged to cost.

6. A fair rate is difficult to determine when based upon any other "degree" than that of interest actually paid.

It has been seen that a summary of all the cost figures is contained in the Cost Ledger under job numbers in exactly the same way as the Impersonal Ledger contains a summary of the ordinary accounts under suitable headings. Similarly, periodical cost statements are essential if accumulative results are to be available to supply invaluable information for the Directorate, and figures for comparison with the financial figures.

SPECIMEN COST SHEETS AND EXAMPLES

The following specimen cost sheets and examples cover quite a wide field and should be carefully studied.

COST OF PRODUCTION OF A STANDARD PRODUCT
(say) BESSEMER STEEL

	January, 19.. Output: 1,000 Tons						
	Expenditure			Cost per Ton			Percentage on Selling Price
	£	s.	d.	£	s.	d.	
Materials—							
Purchased direct (particulars from Analysis Purchase Book)	525	–	–		10	6	10·50
Requisitions of Stores (particulars from Stores Requisition Book)	950	–	–		19	–	19·00
Labour—							
(Particulars from Wages Book analysed according to the various operations of labour) Operation No. 1	250	–	–		5	–	5·00
,, ,, 2	304	3	4		6	1	6·08
,, ,, 3	325	–	–		6	6	6·50
,, ,, 4	287	10	–		5	9	5·75
,, ,, 5	337	10	–		6	9	6·75
,, ,, 6	304	3	4		6	1	6·08
,, ,, 7	216	13	4		4	4	4·34
PRIME COST	£3,500	–	–	£3	10	–	70·00
Direct Expenses—							
(1) Rent, Rates, Taxes, and Insurance of Works .	25	–	–			6	0·50
(2) Motive Power, Fuel, Gas, Water, Lighting . .	275	–	–		5	6	5·50
(3) Royalty	50	–	–		1	–	1·00
(4) Non-productive Wages and Salaries . . .	150	–	–		3	–	3·00
(5) Repairs, Depreciation, etc., of Plant and Machinery	100	–	–		2	–	2·00
(6) Interest on Capital Outlay on Plant, etc. . .	25	–	–			6	0·50
	£4,125	–	–	£4	2	6	82·50
Indirect Expenses—							
(1) Rent, Rates, Insurance, etc., of Offices, Warehouses	12	10	–			3	0·25
(2) Lighting, Heating, Water	8	6	8			2	0·16
(3) Salaries of Office Staff, Manager	250	–	–		5	–	5·00
(4) Bad Debts and Discounts	50	–	–		1	–	1·00
(5) Depreciation of Fixtures, etc.	4	3	4			1	·09
(6) Interest on Capital, Loans	50	–	–		1	–	1·00
TOTAL COST	£4,500	–	–	£4	10	–	90·00
Percentage of Profit, $11\frac{1}{9}\%$ (which gives a 10% profit on the Selling Price)					10	–	10·00
SELLING PRICE PER TON . .				£5	–	–	100·00

The Wages Book should be so arranged that the workmen engaged on similar operations of labour are grouped together, so that the total amount spent on each operation of labour can be extended in a separate column, as this information is necessary in preparing the Cost Accounts.

NOTE. The $11\frac{1}{9}$ per cent added to cost in order to yield 10 per cent on return is arrived at by formula (see page 827), and is as follows—

$$\frac{10 \times 100}{100 - 10} = \frac{\cancel{10} \times 100}{\cancel{90}_{9}} = 11\tfrac{1}{9}\% = \text{percentage required.}$$

COLLIERY COST SHEET

Item of Expenditure	Jan., 19..					Feb., 19..				
	12,000 Tons					11,500 Tons				
	Cost per ton		Amount			Cost per ton		Amount		
	s.	d.	£	s.	d.	s.	d.	£	s.	d.
WAGES—										
Colliers	2	1·61	1,280	5	6	2	2·03	1,247	5	2
Underground		11·20	560	2	5		11·39	545	16	4
Surface		5·98	299	4	7		6·07	290	17	8
WORKING EXPENSES—										
Timber		2·39	119	10	8		2·63	125	14	7
Stores		1·07	53	6	5		1·19	57	2	8
Royalties		6·00	300	–	–		6·00	287	10	–
Horse and Stable Expenses		1·51	75	8	9		1·47	70	9	10
Repairs and Renewals		1·67	83	6	3		1·67	79	15	8
Depreciation		2·91	145	14	7		2·90	139	2	9
ESTABLISHMENT CHARGES—										
Rent, Rates, Taxes, etc.		1·69	84	10	6		1·74	83	9	5
Salaries and Management		3·50	175	–	–		3·65	175	–	–
Bad Debts and Discounts		·88	44	1	5		·86	41	5	6
Sundry Expenses		·70	35	2	10		·68	32	9	7
Total Cost	5	5·11	£3,255	13	11	5	6·28	£3,175	19	2

Example 1. From the following particulars prepare a statement showing (*a*) Prime Cost, (*b*) Works Cost, (*c*) Cost of production, and (*d*) Cost of Sales.

Also show by what percentage the average selling prices should be increased in order to double the net profit. (*R.S.A.*)

	£
Opening Stock	6,795
Closing Stock	7,655
Purchases of Raw Materials	22,962
Wages	16,247
Factory Expenses	7,852
Selling Costs	12,952
Management Costs (applicable to goods sold)	10,617
Sales	81,920
Sales of scrap, etc.	195

STATEMENT SHOWING (*a*) PRIME COST; (*b*) WORKS COST; (*c*) COST OF PRODUCTION; AND (*d*) COST OF SALES

	£ s. d.	£ s. d.		£ s. d.
To Purchases	22,962 – –		By Sales	81,920 – –
Less Sales of Scrap	195 – –			
	22,767 – –			
„ Wages	16,247 – –			
„ *Prime Cost*	39,014 – –			
„ Factory Expenses	7,852 – –			
„ *Works Cost or Cost of Production*	46,866 – –			
„ Commencing Stock	6,795 – –			
	53,661 – –			
Less Closing Stock	7,655 – –			
	46,006 – –			
„ Selling Costs	12,952 – –			
„ Management Costs	10,617 – –			
„ *Cost of Sales*		69,575 – –		
„ Net Profit		12,345 – –		
		£81,920 – –		£81,920 – –
			The selling price in order to double the net profit should be—	
			The above selling price of	81,920 – –
			Add Amount required to double the profit	12,345 – –
			The percentage to add to selling price is $\frac{12,345 \times 100}{81,920} = 15{\cdot}069\%$	£94,265 – –

Example 2. From the following particulars make out monthly cost sheets of a coke and by-product company.

	April	May	June
Coal used	6,900 tons	7,200 tons	7,300 tons
Coke made	4,700 "	4,725 "	4,775 "
Tar made	325 "	340 "	325 "
Sulphate of Ammonia made	90 "	100 "	95 "
Sulphuric Acid used	75 "	95 "	90 "
Benzole made	12,300 gal.	13,900 gal.	14,000 gal.
Creosote Oil used	7 tons	8 tons	8 tons
Wages	£550	£560	£565
Stores, etc.	£55	£75	£75

The prices of the above materials and products were: Coal, 8s. a ton; coke, 14s. 6d. a ton; tar, 13s. 3d. a ton; sulphate, £10 15s. a ton; sulphuric acid, £2 5s. a ton; benzole, 3¾d. a gallon; creosote oil, 3¼d. a gallon (1 ton = 220 gallons).

Show the percentage (to two places of decimals) of coke made, of tar made, and of sulphate of ammonia made to the weight of coal used. (See table on the next page.)

Example 3. Woodgoods, Ltd. submit the following figures taken from the accounts to the year ended 31st December, 19..

	£	£
Wages—		
Machine Dept.	2,400	
Construction in Workshop	6,000	
Carving Dept.	1,000	
Polishing Dept.	1,200	
Construction Outside Works	4,000	
		14,600
Departmental Oncost—		
Machining Dept.	1,200	
Construction in Workshop	600	
Carving Dept.	200	
Polishing Dept.	240	
Construction Outside Works	200	
		2,440
Materials used		9,360
General Oncost		3,960
Carriage Outwards, Charged Direct		1,000
Income Tax, Schedule "D"		800

Prepare an estimate for job No. 555, the amounts for Wages being—Machinery £60, Construction in workshop £100, Polishing £10. Estimated cost of material used £50 and Carriage £18 15s. Provide for a profit of 25 per cent on the price to be quoted.

April Price	April Quantity	April Percentage to Weight of Coal Used	April Amount	May Price	May Quantity	May Percentage to Weight of Coal Used	May Amount	June Price	June Quantity	June Percentage to Weight of Coal Used	June Amount	Class
Per Ton	Tons		£ s. d.	Per Ton	Tons		£ s. d.	Per Ton	Tons		£ s. d.	(a) Products
14/6	4,700	68·12	3,407 10 –	14/6	4,725	65·62	3,425 12 6	14/6	4,775	65·41	3,461 17 6	Coke.
13/3	325	4·71	215 6 3	13/3	340	4·72	225 5 –	13/3	325	4·45	215 6 3	Tar.
£10/15/–	90	1·30	967 10 –	£10/15/–	100	1·39	1,075 – –	£10/15/–	95	1·30	1,021 5 –	Sulphate of Ammonia.
	Galls.				Galls.				Galls.			
3¾d. gal.	12,300		192 3 9	3¾d. gal.	13,900		217 3 9	3¾d. gal.	14,000		218 15 –	Benzole.
			£4,782 10 –				£4,943 1 3				£4,917 3 9	
												(b) Materials and Wages
8/–	6,900		2,760 – –	8/–	7,200		2,880 – –	8/–	7,300		2,920 – –	Coal.
£2/5/–	75		168 15 –	£2/5/–	95		213 15 –	£2/5/–	90		202 10 –	Sulphuric Acid.
3¼d. gal.	7 Galls. 1,540		20 17 1	3¼d. gal.	8 Galls. 1,760		23 16 8	3¼d. gal.	8 Galls. 1,760		23 16 8	Creosote Oil.
			550 – –				560 – –				565 – –	Wages.
			55 – –				75 – –				75 – –	Stores, etc.
			£3,554 12 1				£3,752 11 8				£3,786 6 8	
												(c) Summary
			4,782 10 –				4,943 1 3				4,917 3 9	Value of Output.
			3,554 12 1				3,752 11 8				3,786 6 8	Total Cost.
			£1,227 17 11				£1,190 9 7				£1,130 17 1	Profit.

COST ESTIMATE—JOB NO. 555

	£ s. d.	£ s. d.
Material		50 – –
Wages: Machining	60 – –	
Construction in Workshop	100 – –	
Polishing	10 – –	170 – –
PRIME COST		220 – –
Departmental Oncost—		
(*a*) Machining—50% on Wages	30 – –	
(*b*) Construction—10% on Wages	10 – –	
(*c*) Polishing—20% on Wages	2 – –	42 – –
WORKS COST		262 – –
(*d*) General Oncost 15% on Works Cost		39 6 –
Carriage		18 15 –
TOTAL COST		320 1 –
Add Profit—20% on Selling Price		80 – –
SELLING PRICE		£400 1 –
Say		£400

(*a*) $\frac{1200}{2400} = 50\%$.

(*b*) $\frac{600}{6000} = 10\%$.

(*c*) $\frac{240}{1200} = 20\%$.

(*d*) £14,600 + £2,440 + £9,360 = £26,400.

$\frac{3960}{26,400} = 15\%$.

It will be observed that only three departments were concerned with this particular job.

Income Tax has no bearing on the answer as it is an appropriation of profits and not a charge to cost of production.

Example 4. The following particulars have been extracted from the costing records of a manufacturing company—

	£
Stock—1st December, 19..—	
Raw Materials	3,211
Finished Goods	1,564
Stock—31st December, 19..—	
Raw Materials	4,675
Finished Goods	2,192
Work in Progress—	
1st December, 19..	2,463
31st December, 19..	2,947
Purchases of Raw Materials	16,724
Sales	37,293

PRIME COST ACCOUNT OF A COMPANY FOR THE MONTH ENDED 31ST DECEMBER, 19. .

	£	s.	d.	£	s.	d.		£	s.	d.
To Stocks, 1st Dec., 19. .—							By Stock of Work in Progress, 31st Dec., 19. . .	2,947	–	–
Work in Progress .				2,463	–	–	,, Prime Cost of goods manufactured transferred to Cost of Production Account . .	23,733	–	–
Raw Materials . .	3,211	–	–							
,, Purchase of Raw Materials	16,724	–	–							
	19,935	–	–							
Less Stock of Raw Materials, 31st Dec., 19. . .	4,675	–	–							
				15,260	–	–				
,, Productive Wages . .				8,640	–	–				
,, Carriage on Purchases .				317	–	–				
				£26,680	–	–		£26,680	–	–

COST OF PRODUCTION ACCOUNT OF A COMPANY FOR THE MONTH ENDED 31ST DECEMBER, 19. .

	£	s.	d.		£	s.	d.
To Prime Cost of goods manufactured transferred from Prime Cost Account . .	23,733	–	–	By Cost of production of manufactured goods carried to Trading Account . . .	26,135	–	–
,, Factory Expenses	1,172	–	–				
,, Repairs to Plant and Machinery . .	274	–	–				
,, Factory Non-productive Wages . .	956	–	–				
	£26,135	–	–		£26,135	–	–

TRADING ACCOUNT OF A COMPANY FOR THE MONTH ENDED 31ST DECEMBER, 19..

	£	s.	d.		£	s.	d.
To Stock of Finished Goods, 1st Dec., 19..	1,564	–	–	By Sales	37,293	–	–
,, Cost of Production of manufactured goods	26,135	–	–	,, Stock of Finished Goods, 31st Dec., 19..	2,192	–	–
,, Gross Profit carried to Profit and Loss Account	11,786	–	–				
	£39,485	–	–		£39,485	–	–

PROFIT AND LOSS ACCOUNT OF A COMPANY FOR THE MONTH ENDED 31ST DECEMBER, 19..

	£	s.	d.		£	s.	d.
To Carriage on Sales	673	–	–	By Gross Profit brought from Trading Account	11,786	–	–
,, Office Expenses	995	–	–				
,, Travellers' Salaries, etc.	1,746	–	–				
,, Packing, Advertising, etc.	1,229	–	–				
,, Net Trading Profit	7,143	–	–				
	£11,786	–	–		£11,786	–	–

	£
Productive Wages	8,640
Non-productive Wages (Factory)	956
Carriage on Purchases	317
Carriage on Sales	673
Factory Expenses	1,172
Office Expenses	995
Travellers' Salaries, etc.	1,746
Packing, Advertising, etc.	1,229
Repairs to Plant and Machinery	274

You are required to prepare an account for the month of December showing—

(*a*) Value of materials consumed.
(*b*) Prime cost.
(*c*) Cost of production.
(*d*) Gross profit.
(*e*) Trading profit.

Example 5. Betta Motor Works, Ltd. pay a class of workers at 1s. 6d. per hour (guaranteed minimum rate) plus a bonus on the Rowan Premium Bonus System. Calculate the amounts earned by H, L, and P, in the week ended 10th June, 19... They are all engaged on the same operation. The standard time for producing 1 doz. articles is 4 hrs.

H works 40 hours and produces 12 doz. articles
L ,, 42 ,, ,, ,, 14 doz. ,,
P ,, 48 ,, ,, ,, 13½ doz. ,,

	H	L	P
Time allowed in hours	48	56	54
Time taken in hours	40	42	48
Time saved in hours	8	14	6
Wages payable—			
Time taken at 1s. 6d. per hour	60/-	63/-	72/-
Bonus earned, ratio of time saved to time allowed	($\frac{1}{6}$) 10/-	($\frac{1}{4}$) 15/9	($\frac{1}{9}$) 8/-
Total Earnings	70/-	78/9	80/-
= per hour worked	1/9	1/10·5	1/8

Example 6. Explain four methods of pricing materials drawn from stores and state what, in your judgment, are their relative merits.

Four methods of pricing materials drawn from stores are as follows—

1. *Average unit price of stock on hand.* After each entry is made in respect of the receipt or issue of material, the balance on hand, both quantity and value, is extended together with the average price per unit. This figure will, of course, only be altered by a fluctuating purchase price. This method is the most simple to apply and ensures that all issues are charged on the basis of actual cost.

2. *Market Price.* This involves pre-determining the market price of all issues and the price has to be fixed say, monthly. The object is to ascertain the extent to which the purchase department are buying supplies in line with current prices, which will be disclosed by the difference in the stock account representing a profit or loss. This method, however, is not recommended, as it is a fundamental principle of cost finding that materials should be charged at actual cost.

3. *The First-in, First-out Method.* The object of this system is to charge out issues of stores from that which has been held in stock for the longest period. This is a very satisfactory method unless considerable and frequent fluctuations in prices are apparent. The amount of work involved is, of course, considerable.

4. *Fixed Price Method.* When market prices are stable, a fixed price may be adopted, but this method can be used with advantage only when standard costs are in operation.

To sum up, it will generally be found that the first-mentioned method, the average price of the stock on hand, is the most suitable.

OTHER COSTING TERMS

Other terms met with in costing, with definitions supplied by the Institute of Cost and Works Accountants, are given below—

Administration Cost. The cost of formulating the policy, directing the organization, and controlling the operations of an undertaking, which is not related directly to a research, development, production, distribution, or selling activity or function.

Budgetary Control. The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a basis for its revision.

Conversion Cost. The production cost (excluding the cost of direct material, but including the cost resulting from variations in direct material weight or volume) of producing partly or fully-finished products.

Cost Centre. A location, person, or item of equipment (or group of these) in or connected with an undertaking, in relation to which costs may be ascertained and used for the purpose of cost control.

Cost Control Account. An account which is maintained in the principal ledger (and sometimes in the cost ledger) which records the totals of the transactions recorded in detail in the cost ledger.

Deferred Maintenance Cost. The cost of repairs, renewals or upkeep of fixed assets which should be undertaken and charged in an accounting period but which are not dealt with until a subsequent period.

Direct Expense. Expense that can be allocated to cost centres or cost units.

Distribution Cost. The cost of the process which begins with making the packed product available for dispatch, and ends with making the reconditioned returned empty package available for re-use.

Production Cost. The cost of the process which begins with supplying materials, labour, and services, and ends with primary packing of the product.

RECONCILIATION WITH FINANCIAL ACCOUNTS

It has been observed that the percentages used for calculating overheads in the Cost Accounts are based upon past results, and it follows, therefore, that in this respect the two sets of accounts will disagree.

The main object in reconciling the financial profit and the cost profit is to obtain an explanation of this difference both as a check on the accuracy of the cost figures and for future guidance.

In order to obtain satisfactory results it is very desirable that the Cost Accountant and Financial Accountant should co-operate closely. Rather more analysis will be required in the financial books in order that the two sets of books should have accounts in common for the purpose of comparison.

An outline only of the main points can be dealt with in this chapter, as a detailed study of this special aspect of costing is beyond the scope of the present book.

In the first place it is not satisfactory unless the Cost Ledger is kept on a double-entry basis, enabling a Trial Balance to be extracted before the preparation of periodical statements. This is done in the main by means of the Abstracts which have already been illustrated. Each job account is debited from the Wages Abstract, in the right-hand column of which is a Summary. By posting the total of this Summary to a "Direct Wages" Account, double-entry will be procured, although the total so posted must exclude all items which are not directly chargeable to a contract. There is no corresponding account in the financial books and to obtain this the wages paid must be analysed into three accounts:

(*a*) direct wages, (*b*) non-productive wages, and (*c*) office wages and salaries. To avoid any possible difference occurring in this analysis it is a good plan for the Cost Accountant to supply these figures each week to the Accountant.

The materials are dealt with in a similar way, the Summary column on the Materials Abstract supplying the double-entry figure for the Cost Ledger whilst the Financial Accountant can use these figures for posting from the Purchases to Direct Materials Account.

In the case of overheads it must be realized that the position is somewhat reversed. The correct figures appear in the financial accounts whilst the Cost Accountant adds on estimated percentages based upon past results to cover these. The task, then, is to ascertain that the "Recoveries" by the Cost Accounts are sufficient. The items covered by works oncost and general oncost have already been enumerated at page 777 and if the Financial Accountant will keep his books in such a way that these groups of items can be easily identified, regular comparisons can be made and any discrepancies investigated. There is no greater fallacy in costing than to assume that any percentage used for overheads is either accurate or in any way permanent. The comparison with the financial books must be frequent.

It will be helpful to consider the main points of difference between the cost and financial records and how a reconciliation can be arrived at.

Depreciation. In many cases the figures in the two sets of books will be quite different. As it is an overhead charge this is not of such import provided the charge in the cost accounts is considered adequate.

Extraordinary or Non-recurring Expenditure. Expenditure on a large repair job or a loss by fire not sufficiently covered by insurance cannot obviously form a part of the normal overheads added in the cost account, and must form the subject of a special adjustment.

Interest from Investments. Whilst this item appears in the financial books, it has no bearing on the cost of production and must therefore be taken into consideration in any reconciliation between the two sets of accounts.

Stock Adjustments. When it is found necessary at the close of the financial year to write down stocks, a loss will thereby result which cannot be brought into the cost accounts.

The statement on the following page reveals that in this particular period the total overheads recovered in the cost accounts is short of the actual figure by £345. Had it been greater it might be considered necessary to increase the percentage addition for the subsequent period. A credit difference would, of course, suggest the reverse.

The final reconciliation is accomplished as follows—

PROFIT AND LOSS RECONCILIATION ACCOUNT

	Dr. £	Cr. £
Profit as per Cost Accounts		10,000
Interest from Investments		800
Depreciation in Cost Accounts		750
Depreciation in Financial Accounts	1,060	
Amount written off Stocks at year end	300	
Non-trading Expenditure	500	
Extraordinary Expenditure	600	
Amount of Overheads short recovered	345	
Net Profit as per Profit and Loss Account	8,745	
	£11,550	£11,550

The difficulties of costing systems in the past have sometimes been attributed to the delay which takes place in presenting the data to management. It is of little use presenting detailed costing information several months after the financial accounts of the company have been audited and submitted to members.

In modern large-scale operations these difficulties are overcome by the installation of accounting machines which link the costing system to the financial. In fact, in some modern engineering factories the preparation of the financial accounts is a small matter compared with the accounting work entailed in a cost control system based on standards.

QUESTIONS

1. Mention the chief classes of cost accounts.
2. Explain three methods of remuneration of labour.
3. Define Overhead, Standard Costs, Job Costing.
4. What are the arguments for the inclusion of interest in cost accounts?
5. What methods are available for pricing materials drawn from stores?

EXERCISE XVII

1. You are placed in charge of the accounts of a company which manufactures three distinct classes of goods. You find that no cost accounts are kept, and that you are required to institute an efficient system.

Select any manufacturing business and describe a system which you would recommend, explaining, in particular, how you would deal with the following expenses—

(*a*) Rent and Rates; (*b*) Discount and Bank Charges; (*c*) Depreciation; (*d*) Travellers' salaries and expenses; (*e*) Management salaries; (*f*) Debenture Interest. (*R.S.A.*)

2. Classify the various distinct methods of costing. Explain the peculiar characteristics of each, and state to what particular class of undertaking each is applicable. (*Chartered Accountants.*)

3. Simpson & Company, in addition to a general engineering and repairing business, are manufacturers of pumps of four standard sizes, which they make and sell in large quantities. They desire to inaugurate a system which will show them the cost of production of each standard size of pump. Set out briefly your suggestions as to how this could be accomplished. (*Chartered Accountants.*)

4. Draw up a form of weekly or monthly Cost Sheet adapted to one *only* of the following industries, and give specimen entries illustrating its workng: (*a*) Colliery, (*b*) Cotton-spinning Mill, (*c*) Iron Foundry, (*d*) Brewery.
(*Chartered Accountants.*)

5. State briefly the principles governing Cost Accounts, and give a form of Cost Sheet suitable for a manufacturing business, entering not less than six items of cost relating thereto. (*Chartered Accountants.*)

6. State the unit or units of output or earning generally in use for preparation of Cost Accounts of the following: (1) Breweries, (2) Brickworks, (3) Collieries, (4) Electric Light Works, (5) Gas Works, (6) Iron and Steel Manufacturers, (7) Tramways, (8) Water Works. (*Chartered Accountants.*)

7. When auditing the accounts of a large factory where wages are paid by piece-work, you find on reference to the Company's statistical results the following—

A. Dept.	Year (1)	% on Output	Year (2)	% on Output
Material . .	10,500	10·50	11,500	11·50
Wages . .	5,250	5·25	7,250	7·25
Packing . .	1,050	1·05	1,000	1·00
Supervision .	525	·52	500	·50

What are your conclusions? (*Incorporated Accountants.*)

8. Prepare a chart showing the output of electricity and coal consumption of an Electric Lighting Company. (*Incorporated Accountants.*)

9. What are the principal reasons for Cost Accounts? What tests would you apply to Cost Accounts so as to ensure their accuracy as far as possible?
(*Incorporated Accountants.*)

10. A Soap Manufacturing Company keep their Cost Accounts on the card index system. What are the advantages of the system for this purpose? Give an illustration of a card and state what precautions are necessary where the raw material used is subject to violent fluctuations. (*Incorporated Accountants.*)

11. Explain the information and advantages to be obtained by a careful tabulation of comparative statistics and percentages in relation to: (*a*) Gross Profit, (*b*) Wages, (*c*) Stock, (*d*) Material, (*e*) Costs of Distribution, (*f*) the detection of fraud in accounts. (*Incorporated Accountants.*)

12. A firm of Constructional Engineers carry on a business which is almost entirely done under contracts. Most of the material required is purchased specially for these contracts, but quantities of general materials are also purchased for Stock. They desire to be kept advised of the progress of the cost and the ultimate profit or loss on each contract as completed. State the general outlines of a system of Cost Accounts you would recommend for this purpose.
(*Chartered Accountants.*)

13. State the theory of Overhead Charges or Oncost, saying how they are determined, and how applied. (*Chartered Accountants.*)

14. Describe a system of Cost Accounts suitable for a Builder and Contractor, detailing the nature and the use of the books you would recommend, and showing how the Cost Accounts may be co-ordinated with the Commercial Accounts.
(*Chartered Accountants.*)

15. In the Nominal Ledger of a firm of contractors you find the following account—

COST BOOK ACCOUNT

Dr.		£		Cr.	£
Jan. 1	To Balance brought down	3,000	Dec. 31	By Contracts and Charges	45,000
Dec. 31	,, Goods and Materials from Stock	23,000		,, Materials returned to Stock	2,500
	,, Wages	16,000		,, Balance carried down	3,200
	,, Sundry Cash payments	200			
	,, Transfer to P. & L. Account	8,500			
		£50,700			£50,700
Jan. 1	To Balance brought down	£3,200			

Explain fully the meaning and use of this account. (*Chartered Accountants.*)

16. The Northern Foundry Co., Ltd., are manufacturers of steel castings. The Company has instituted a system of costing; and you are requested to advise as to the basis on which standing charges and established expenses should be charged. The manufactures of the Company vary greatly, some of the castings being of considerable size and weight, and others very small, but requiring intricate workmanship.

The points you have to deal with are—

(1) Foremen's wages, and wages of labourers and others not directly charged.
(2) Rent and Rates.
(3) Travellers' salaries and expenses, and expenses of the forwarding department.
(4) General office expenses.
(5) Salaries of manager and managing director.

What would you advise? (*Chartered Accountants.*)

17. What do you understand by the term "Oncost"? Upon what basis or bases do you consider it should be calculated? Give your reasons. (*Chartered Accountants.*)

18. What advantages and disadvantages do you see in presenting along with a Revenue Account a tabular system of percentages? Draw up an imaginary account of this kind for three years in connexion with any business with which you are familiar, and make a Report stating the conclusions you have come to from the figures. Point out fallacies that may arise from a study of percentages alone. (*Incorporated Accountants.*)

19. Explain five methods of remuneration of workmen in vogue in manufacturing industries. Discuss freely the merits and/or demerits of the methods. Also, state which method you more particularly favour, giving reasons in support of your preference.

20. Outline the means of control of "time" obtaining in most factories, and state one reason which—perhaps above many others—justifies the adoption of the system of time control you will have explained.

21. Enumerate the "cards" and "books" used in a costing system for control over material or stores, and briefly explain the purpose served by each card and book mentioned.

22. Sketch the form of a Wages Abstract and explain the purpose it serves in a costing system.

23. Draw up a chart which will show the way in which the elements of cost are compiled from prime to total cost.

24. Casson & Co., printers and publishers, publish a book written by H. G. Sell to whom a royalty of 1s. a copy is payable on every copy sold. The publishers pay all production and distribution costs, which costs are included in general debits to various expense accounts; 4,000 copies are printed, and an investigation disclosed that the costs of production included in the general debits to the accounts named below were the amounts set opposite the accounts named—

	£
Printing Wages	120
Paper	190
Binding Materials	110
Advertising	40

During the first year after publication, 200 free copies were issued to reviewers, libraries, etc., and 2,500 copies had been sold at a net price of 6s. each, and Casson & Co. sent the author a cheque for the royalty due to him.

It is desired to know what profit has been made on this particular book during the first year. Make Journal entries for all transactions that may be necessary to attain this object, and post to a Publication of Book Account any items necessary to ascertain the profit on the book, closing the account and ascertaining the profit.

Assuming that in the second year the whole of the remaining books were sold at the same price, except 100 that were sold as remainders at 3s. each, and that no further costs were incurred, except the royalty, which was paid on all books sold whether at the original price or as remainders, complete the account of the book for the second year. (*West Riding of Yorkshire.*)

25. A manufacturing Company, having instituted Stores Accounts, finds that at the end of the first financial year there are considerable discrepancies between the values of the physical stock and the values as shown by the stores records. Investigation discloses that the differences in quantities are small and that they arise mainly in values.

Explain how this might happen, and suggest a system which, if used, should result in the values of the physical stock agreeing, within reasonable limits, with the values as disclosed by the stores records. (*R.S.A.*)

26. Describe a system of Cost Accounts suitable for use in any manufacturing business with which you may be familiar.

Submit an appropriate cost sheet, inserting details building up to total cost, and explain carefully the meaning and source of each item you insert. (*R.S.A.*)

27. To what extent do you consider that it is advisable to maintain agreement between the financial and costing records of a manufacturing business? Give reasons for your answer and explain, in particular, how you would deal with the records of purchases and wages. (*R.S.A.*)

28. "The Lord Mayor yesterday remitted to Madras by telegraph £2,000 as a first instalment on account of the Indian Famine Fund." Explain by what expedients the transfer is effected, and give the entries in the London and Madras books respectively. (*R.S.A.*)

29. Charles Richardson & Co., of London, send upon consignment to William Robinson & Co., of Alexandria, on 1st February, for sale on their account, 74 cases of Bradford goods invoiced *pro forma* at £100 per case. A commission of $2\frac{1}{2}$ per cent is payable on sales. Charles Richardson & Co. pay Freight £35, Insurance £12, and draw on William Robinson & Co. a two months' bill at sight for £1,000. William Robinson & Co. pay landing charges £7, Insurance and Freight £20, and accept the bill on 21st February and obtain delivery of goods; they sell 30 cases at £120 each, 24 cases at £125 each, and 20 cases at £130 each. Make out an Account Sales and enter up the Consignment Account in Charles Richardson & Co.'s and in William Robinson & Co.'s books.

(*Incorporated Accountants.*)

30. A, B, C, are partners in a business, dividing profits equally. Their balance sheet at 31st December is as follows—

	£		£
Sundry Creditors	3,800	Sundry Debtors	9,700
Bills Payable	900	Stock	2,400
Capital Accounts—		Furniture	380
A	6,000	Cash at Bank	620
B	3,000	C, Drawing A/c	3,000
C	1,000		
Drawing Accounts—			
A	700		
B	700		
	£16,100		£16,100

C is insolvent and unable to contribute anything; the partnership is consequently dissolved, and the Sundry Debtors' Stock and Furniture realize £10,380. Draw up a final Balance Sheet showing the position of each partner's Capital Account. There is no agreement between the parties. (*Incorporated Accountants.*)

31. A Limited Company is formed to buy a property from B for £50,000—£25,000 in cash and £25,000 in shares. The Capital is £75,000 in 75,000 shares of £1 each. 50,000 shares are issued, 5s. payable on application, 5s. on allotment, 5s. on first call, and 5s. on final call.

The purchase money, £25,000, is paid, and the consideration shares are allotted to B.

The preliminary expenses, £2,200, are paid by the Company. Shareholders holding 820 shares fail to pay the final call, and the shares are forfeited under the Articles of Association.

State the Cash Book, Journal and Ledger entries necessary to record the facts. (*Incorporated Accountants.*)

32. Briefly explain—

(*a*) Single Cost.
(*b*) Departmental Costs.
(*c*) Process Costing.
(*d*) Job Costs.
(*e*) Terminal Costs.
(*f*) Multiple Costs.
(*g*) Operating Costs.

Also, prepare a Cost Sheet, showing elements of cost in the manufacture of a commodity.

33. The Albury Mining Co., Ltd., was registered on 1st January, and commenced operations at once as an Exploring and Mining Company. The nominal Capital consisted of 50,000 Ordinary Shares of £5 each. Of this Capital 20,000 shares were issued and taken up by the public, 30s. per share being called up. During the process of sinking a shaft, a good deposit of clay was found, suitable for tile-making, and the Company decided to manufacture and sell tiles, as a separate trading department. During the month of December, the Company's engineer reported that a paying vein of tin had been reached; and the Directors decided that the cost to date of opening up this vein should be capitalized and written off over future years when the property was in full working order.

On 31st December the balances of the Ledger accounts of the Company were as follows—

	£		£
Freehold Land at cost	7,000	Rates, Taxes, Office, and Sundry Expenses, and Carriage	584
Buildings at cost	563	Carriage (Tile Dept.)	215
Preliminary Expenses	410	Legal Expenses (*re* Claim for injuries in Mine Accident)	220
Stock of Stores and Coal on 31st December	988	Sales of Tiles	2,599
Coal consumed	931	Sundry Creditors	3,407
Wages	3,843	Tramway Track and Wagons at cost	1,100
Salaries	308	Travellers' Commission (Tile Dept.)	63
Stores used	2,745	Bills Payable	627
Stores used (Tile Dept.)	56	Cash at Bank	2,477
Wages (Tile Dept).	2,733		
Machinery and Plant at cost	12,038		
Capital	30,000		
Sundry Debtors	359		

You are required to prepare (*a*) an account showing the amount which you consider should be capitalized as representing the cost of opening up the tin vein, (*b*) an account showing the trading results of the Tile Department for the year ended 31st December, and (*c*) the Balance Sheet as on 31st December.

The Directors decided that a charge of £343 should be made against the Tile Department, as representing power, coal, etc., used; and a charge of £104, as representing a share of general trade expenses.

The stock of tiles on hand as on 31st December was valued at £718.

(*R.S.A.*)

34. (*a*) What is a Repairs and Renewals Reserve Account?
    (*b*) What are its advantages?
    (*c*) Construct such an account for three years.
    (*d*) State where the balance of the account would appear in the final accounts. (*R.S.A.*)

CHAPTER XVIII

HIRE-PURCHASE ACCOUNTS, INSTALMENT-PAYMENT PURCHASES

HIRE-PURCHASE ACCOUNTS

Definition. The hire-purchase system is a system under which money is paid for goods by means of periodical instalments, with the view of ultimate purchase. All money being paid in the meantime is regarded as payment for hire; and the goods become the property of the buyer only when all the instalments have been paid.

Both hire-purchase and instalment-payment purchases are now governed by the Hire-Purchase Act, 1938, provided the agreements do not exceed certain limits as to value.

Two sections of this Act are of particular interest to students of accountancy, and it is to be noticed in passing that its main object is the protection of the small purchaser for whose benefit these methods of trading were first introduced.

Section I. Application of Act.

This Act shall apply in relation to all hire-purchase agreements and credit-sale agreements under which the hire-purchase price or total purchase price, as the case may be, does not exceed—

(*a*) where the agreement relates to a motor vehicle or railway wagon or other railway rolling stock, the sum of fifty pounds,

(*b*) where the agreement relates to livestock, the sum of five hundred pounds, and

(*c*) in any other case, the sum of one hundred pounds.

Section II. Restriction of owner's right to recover possession of goods otherwise than by action.

(1) Where goods have been let under a hire-purchase agreement and one-third of the hire-purchase price has been paid, whether in pursuance of a judgment or otherwise, or tendered by or on behalf of the hirer or any guarantor, the owner shall not enforce any right to recover possession of the goods from the hirer otherwise than by action.

(2) If an owner recovers possession of goods in contravention of the foregoing subsection, the hire-purchase agreement, if not previously determined, shall determine, and—

(*a*) the hirer shall be released from all liability under the agreement and shall be entitled to recover from the owner in an action for money had and received all sums paid by the hirer under the agreement or under any security given by him in respect thereof, and

(*b*) any guarantor shall be entitled to recover from the owner in an action for money had and received all sums paid by him under the contract of guarantee or under any security given by him in respect thereof.

Entries in the Hire Purchaser's Books. It will be obvious that, if payment of the value of the goods is to be made over a protracted period, e.g. where the buyer is, say, a Motor Hire Company, buying taxi-cabs on hire purchase, such payment will include charges for interest. And it will be found that the total of the instalments is more or less the cash value of the goods, plus interest on the balance of purchase money from time to time unpaid. There are several methods of dealing with hire purchases in the books of account. By one method, no entry will be made in the books of the hire purchaser until the first instalment is paid. This must be apportioned as between capital and revenue. It will be necessary to ascertain the cash value of the goods, and also the rate of interest charged for hire. Whenever an instalment is paid, the interest on the cash value, or the unpaid portion of it, must be worked out. The amount of the interest will represent the proportion of the instalment to allocate to revenue, i.e. to debit to Profit and Loss as hire charge; the balance of the instalment will be the charge to capital, i.e. to debit an Asset Account.

How Depreciation is Dealt With. Some accountants contend that it is quite wrong to take depreciation into consideration at all; that it is, in fact, an error of principle to depreciate, in our books, goods that belong to another person. But it must be remembered that these payments are being made with the ultimate object of making the goods our own. The disadvantage of not making provision for depreciation can be clearly seen from the following illustration. Suppose it is agreed to buy goods on the hire-purchase system, and that the payments are to extend over a period of five years. Suppose, also, that the payments are continued and the articles eventually become our property. At the end of the period the goods will appear in our books at their cost price (i.e. at the price of new ones), and yet the articles will have been in use for five years. This, too, is obviously wrong in principle. The object of providing for depreciation, therefore, is that the asset shall appear in the books, at the end of the purchasing period, at its then value. This is achieved by writing depreciation off the cash value of the asset; in other words, by depreciating the asset in the same way as other assets bought for cash or on credit. Any repairs or renewals that may become necessary will, of course, be charged to Profit and Loss Account.

Example 1. The X Co., Ltd., purchases wagons on the hire-purchase system over a period of five years, payable by annual instalments of £600. The Wagon Company charges interest at the rate of 5 per cent per annum on the yearly balances. Show the accounts in the books of the buyer. Depreciation to be reckoned at 10 per cent.

The cash value of the wagons may be taken as the present value of an annuity of £600 for 5 years at 5 per cent interest. Reference to the Table shows that the present value of an annuity of £1 for 5 years at 5 per cent is £4·329477. This amount multiplied by 600 gives us £2,597 13s. 9d. as the cash value of the wagons.

In Hire Purchaser's Books

LEDGER

WAGON ACCOUNT

Dr. *Cr.*

Year		£ s. d.	Year		£ s. d.
1	To Vendor . . .	2,597 13 9	1	By Depreciation at 10%	259 15 4
				,, Balance c/d . .	2,337 18 5
		2,597 13 9			2,597 13 9
2	To Balance b/d . .	2,337 18 5	2	By Depreciation at 10 %	233 15 10
				,, Balance c/d . .	2,104 2 7
		2,337 18 5			2,337 18 5
3	To Balance b/d . .	2,104 2 7	3	By Depreciation at 10%	210 8 3
				,, Balance c/d . .	1,893 14 4
		2,104 2 7			2,104 2 7
4	To Balance b/d . .	1,893 14 4	4	By Depreciation at 10%	189 7 5
				,, Balance c/d . .	1,704 6 11
		1,893 14 4			1,893 14 4
5	To Balance b/d . .	1,704 6 11	5	By Depreciation at 10%	170 8 8
				,, Balance c/d . .	1,533 18 3
		1,704 6 11			1,704 6 11
	To Balance b/d . .	1,533 18 3			

HIRE VENDOR ACCOUNT

Year		£ s. d.	Year		£ s. d.
1	To Cash . . .	600 – –	1	By Wagon A/c . .	2,597 13 9
	,, Balance c/d . .	2,127 11 5		,, Interest 5% . .	129 17 8
		2,727 11 5			2,727 11 5
2	To Cash . . .	600 – –	2	By Balance b/d . .	2,127 11 5
	,, Balance c/d . .	1,633 19 –		,, Interest 5% . .	106 7 7
		2,233 19 –			2,233 19 –
3	To Cash . . .	600 – –	3	By Balance b/d . .	1,633 19 –
	,, Balance c/d . .	1,115 12 11		,, Interest 5% . .	81 13 11
		1,715 12 11			1,715 12 11
4	To Cash . . .	600 – –	4	By Balance b/d . .	1,115 12 11
	,, Balance c/d . .	571 8 7		,, Interest 5% . .	55 15 8
		1,171 8 7			1,171 8 7
5	To Cash . . .	600 – –	5	By Balance b/d . .	571 8 7
				,, Interest 5% . .	28 11 5
		600 – –			600 – –

HIRE-PURCHASE INTEREST ACCOUNT

Year		£ s. d.	Year		£ s. d.
1	To Vendor	129 17 8	1	By Profit and Loss A/c .	129 17 8
2	" "	106 7 7	2	" " " " .	106 7 7
3	" "	81 13 11	3	" " " " .	81 13 11
4	" "	55 15 8	4	" " " " .	55 15 8
5	" "	28 11 5	5	" " " " .	28 11 5

At the end of the first year the item on the Balance Sheet would appear as follows—

Wagons in course of hire-purchase	£2,337 18 5
Less liability in respect thereof	2,127 11 5
	£ 210 7 –

It will be noticed that this represents the net capital expenditure—

Instalment £600, *less* Interest £129 17s. 8d.	£470 2 4
Less depreciation	259 15 4
	£210 7 –

Exception is sometimes taken to this on the ground that the wagons do not *belong* to the hirer, but the above point as to depreciation is the answer to that objection, viz. that it is intended that they *shall* eventually belong to him.

This method also has the advantage of keeping an account which agrees with that in the books of the wagon owner. (See next example.)

By an alternative method, the total interest for the whole period is charged to an Interest Suspense Account, transfers being made to Revenue each year.

The entries in this case are—

1. *Dr.* Asset Account with full cash price.
   Dr. Interest Suspense Account with total interest.
   Cr. Vendor with full amount to be paid by instalments.
2. As instalments are paid.
   Dr. Vendor's Account.
   Cr. Cash.
3. In respect of the interest portion of each payment.
   Dr. Interest Account.
   Cr. Interest Suspense Account.

For the purpose of the Balance Sheet the balance of the Vendor's Account less the balance of the Interest Suspense Account is deducted from the Asset.

Entries in Seller's Books. In the seller's books the items will be entered at their cash value into a special Hire-Purchase Day Book. From this they will be posted to the debit of the purchaser's account in the Ledger. Periodically, the total of the Hire-Purchase Day Book will be posted to the credit of a Hire-Purchase Sales Account. As each instalment falls due, the customer's account will be debited with interest on the unpaid amount of it. This interest will be credited to a Hire-Purchase Interest Account, and, at balancing time, will be transferred to Profit and Loss Account along with other profits. The goods, however, are not yet the absolute property of the buyer; and if default is made in payment, the seller may re-take possession of them. It is, therefore, necessary to make a Reserve to cover any possible loss that might be sustained through such a contingency.

Example 2. The X Co., Ltd., purchases wagons on the hire-purchase system over a period of five years, payable by annual instalments of £600. The Wagon Co. charge interest at the rate of 5 per cent per annum on yearly balances. The cash value of the goods is £2,597 13s. 9d. Show the accounts in the books of the seller.

In Seller's Books

LEDGER

Dr. THE X. COMPANY, LTD. *Cr.*

Year		£ s. d.	Year		£ s. d.
1	To Hire Purchase Sales A/c	2,597 13 9	1	By Cash	600 – –
	„ Interest 5%	129 17 8		„ Balance c/d	2,127 11 5
		2,727 11 5			2,727 11 5
2	To Balance b/d	2,127 11 5	2	By Cash	600 – –
	„ Interest 5%	106 7 7		„ Balance c/d	1,633 19 –
		2,233 19 –			2,233 19 –
3	To Balance b/d	1,633 19 –	3	By Cash	600 – –
	„ Interest 5%	81 13 11		„ Balance c/d	1,115 12 11
		1,715 12 11			1,715 12 11
4	To Balance b/d	1,115 12 11	4	By Cash	600 – –
	„ Interest 5%	55 15 8		„ Balance c/d	571 8 7
		1,171 8 7			1,171 8 7
5	To Balance b/d	571 8 7	5	By Cash	600 – –
	„ Interest 5%	28 11 5			
		600 – –			600 – –

Dr. HIRE-PURCHASE INTEREST Cr.

Year		£ s. d.	Year		£ s. d.
1	To Profit and Loss A/c .	129 17 8	1	By X. Co., Ltd. . .	129 17 8
2	" " " " .	106 7 7	2	" " . .	106 7 7
3	" " " " .	81 13 11	3	" " . .	81 13 11
4	" " " " .	55 15 8	4	" " . .	55 15 8
5	" " " "	28 11 5	5	" "	28 11 5

Second Method of Dealing with Hire-Purchase Accounts. —Goods Out or Stock System—at Cost. Where numbers of articles of much smaller value are being sold daily on the hire-purchase system, the foregoing method of book-keeping is too elaborate, and a simpler plan is adopted.

The cardinal feature of this system is to consider all the goods out on hire as stock. To keep a full record of goods out on hire purchase, it is necessary to have Ledger Accounts of the customers showing the same detail therein as if the goods had actually been sold, but these accounts are not part of the ordinary double entry system; and although the principle of double entry may be employed in balancing the accounts, they are purely memoranda. They supply important information showing what each customer owes, but they form no part of the double entry.

The procedure may be outlined as follows—

(1) Debit Hire Purchase Trading Account and credit Purchases Account with *cost* price of goods sent to customers on hire purchase. At the same time each Customer's (*Memorandum*) Account will be debited with the *sale price* of such goods.

(2) Returns from customers. (See page 821.)

(3) The instalments paid will be debited to cash and credited to Hire Purchase Trading Account. At the same time, the Customer's (*Memorandum*) Account will be credited.

(4) The instalments due and unpaid will be debited to Instalments Due Account and credited to Hire Purchase Trading Account.

(5) The stock "out," i.e. the same proportion of the cost of the goods sent as the amount of unaccrued instalments bears to the total amount of the instalments, is credited to Hire Purchase Trading Account and debited to Hire Purchase Stock Account.

(6) The *Memoranda* accounts will show the balances against the customers, but not being part of the double entry are not brought into the Trial Balance. Thus, the customers' accounts are "reference" accounts only. A transfer may be made similar to that in (4).

The gross profit is the excess of the sum of instalments due and paid, plus stock out on hire purchase at the end of the period over

the stock out on hire purchase at the beginning, plus goods sent to customers during the period, less returns, at cost.

In account form this will be—

Dr. HIRE PURCHASE TRADING ACCOUNT *Cr.*

		£			£
To Stock at Cost . .	b/d		By Instalments Paid .		
,, Goods sent to Customers at Cost . .			,, ,, Due .		
,, Gross Profit . .			,, Stock at Cost . .	c/d	
To Stock at Cost[1] . .	b/d				

Before illustrating the working of the above a simple example is given to show the computation of the value of the stock out on hire purchase.

Example 3. Goods costing £10 are sent to B. Brown on hire purchase, the price being £20, payable in twenty instalments of equal intervals. At the end of the accounting period of the hire vendor, five instalments are yet unpaid (fifteen having been paid at due dates).

The stock in the hands of the customer is valued as follows—

$$\tfrac{5}{20} \times £10 = £2\ 10s.$$

Assuming, further, that (for sake of simplicity) it is the only transaction of the period, the Hire Purchase Trading Account would appear as below—

Dr. HIRE PURCHASE TRADING ACCOUNT *Cr.*

		£ s. d.			£ s. d.
To Goods at Cost .		10 – –	By Instalments Paid .		15 – –
,, Gross Profit . .		7 10 –	,, Stock . .		2 10 –
		£17 10 –			£17 10 –

Dr. HIRE PURCHASE STOCK ACCOUNT *Cr.*

		£ s. d.			
To Hire Purchase Trading Account .		2 10 –			

In the Memorandum Hire Purchase Ledger—

Dr. B. BROWN *Cr.*

		£ s. d.			£ s. d.
To Goods . . .		20 – –	*By Cash* . . . *(detailed as each payment is made)*		15 – –
			,, *Balance* . .	*c/d*	5 – –
		£20 – –			£20 – –
To Balance . .	*b/d*	5 – –			

[1] Or transferred to and from a separate Stock Account (see Example 3).

It should now be quite clear that the balances on the customers' accounts do not appear as part of double entry accounting and hence do not form a part of the Trial Balance. *Practically*, these Memoranda Accounts are vital, but from a *double entry* point of view entirely unnecessary, as the Hire Purchase Trading Account gives the necessary results and forms an integral part of the double entry. This point is stressed because of the confusion in the minds of some students as to the function of the Memoranda Accounts. Important as the Memoranda Accounts are for reference, they can be ignored in completing the double entry.

The books employed will be the Day Books, the Cash Book, and supplementary to the double entry, the memorandum Ledger.

The Day Books, as to sales and returns inwards, will usually contain supplementary columns in order to fulfil the functions of the double entry *and* to furnish the necessary data from which may be compiled the Memoranda Accounts, i.e. there will be a column for the purpose of the double entry and others recording the detail necessary for the compilation of the Memoranda Accounts. The columns in the Sales Day Book, apart from date and folio columns, are usually necessary to record—

(1) Cost price of the goods sold.
(2) Sale price of the goods sold.
(3) Number of amounts of instalments.
(4) Periodicity of instalments.
(5) Any other information that circumstances require.

There will be no difficulty if it is remembered that the first column is for the double entry, the others being for "*Memorandum*" purposes only, forming no part of the double entry; but column (2) provides the data for entering up the Memoranda Accounts. The total of column (1) will be debited to the Hire Purchase Trading Account and to the credit of Purchases Account, and so far as this side of the transaction is concerned, this is the only double entry. The individual items in column (2) will be posted to the debit of the customers' accounts in the Memorandum Ledger, and these postings are of no account so far as the double entry is concerned. It is usual, however, to total column (2) and post this total to a Memorandum Ledger Adjustment Account, the entries being made in total to the credit, i.e. the opposite side to that to which the individual items are posted.

Returns Inwards (at cost) will be dealt with conversely, i.e. column (1) is totalled and such total is posted to the debit of Purchases Account and to the credit of Hire Purchase Trading Account as part of the ordinary double entry, while the details of returns (at selling price) will be posted from column (2) to the credit of the respective customers' accounts in the Memorandum

Ledger, and if a Memorandum Ledger Adjustment Account is employed, the total of column (2) will be posted to the debit of this account.

The other columns call for no special mention as they are self-explanatory. It may here be mentioned that as the accounts of customers are very numerous, the Card Ledger system is frequently employed.

With regard to cash received, the entries will be made in the Cash Book in the usual way, but such entries fulfil a twofold function: (1) for the double entry, (2) for writing up the Memoranda Accounts. The total of cash received from hire purchase customers is posted (as part of the double entry) to the credit of Hire Purchase Trading Account, whilst the individual receipts are posted to the credit of the customers' accounts in the Memorandum Ledger. If a Memorandum Ledger Adjustment Account is employed the total of such receipt will be posted to the debit thereof.

The Memorandum Ledger Adjustment Account, when totalled, will have the balance on the opposite side to the detailed balances in the Memorandum Ledger. Thus the system is to adapt the double entry idea in the verification of the Memorandum Ledger total by means of the Adjustment Account, but still it is quite independent of the formal double entry accounting.

Lastly, any instalments actually due and unpaid will be ascertained from the Memorandum Ledger, and these will be credited to the Hire Purchase Trading Account and debited to a separate account called Instalments Due Account. Frequently the latter are ignored for the purpose of the Hire Purchase Trading Account, in which case the cost equivalent of the unpaid instalments will be included in stock.

The balance of the Hire Purchase Trading Account will be transferred to the Trading Account, subject to suitable provision for losses, depreciation, and the like.

Example 4. Jones, Ltd., forward a piano to A. Alan on the hire purchase system, the cost being £100 and the selling price £200; payable in fifty monthly instalments of £4 each, commencing from 31st August. The sale takes place on 31st August, 1941; the instalments are regularly paid. Accounts are drawn up to 31st December.

On 1st October, 1941, a similar sale is made to B. Bloom, the cost price being £78, the sale price £104 payable in weekly instalments of £2, commencing from 1st October; the instalments are paid regularly. Show the various entries necessary in the books of the Hire Vendor.

The total of the cost price column (as part of the double entry) is posted to the debit of the Hire Purchase Trading Account. If such an account is to be drawn up to 31st December, 1941, the cash

HIRE PURCHASE SALES DAY BOOK

Date	Particulars	No. of Instalments	Period of Instalments	Amount of Instalment	Cost Price	Fol.	Selling Price
				£	£		£
1941 Aug. 31	A. Alan	50	monthly	4	100	1	200
Oct. 1	B. Bloom . . .	52	weekly	2	78	2	104
					£178		£304

received and the value of the stock in the hands of customers will be found as follows—

(1) Cash received from—

Alan—£20, i.e. 5 payments of £4. Bloom—£28, i.e. 14 payments of £2.

(2) Stock "out"—

Instalments outstanding × Cost

		£
Alan	$= \frac{45}{50} \times £100 =$	90
Bloom	$= \frac{38}{52} \times £\ 78 =$	57
		£147

Ordinarily, *in practice*, a Schedule will be prepared for the purpose of arriving at the valuation of the hire purchase stock out, thus—

HIRE PURCHASE STOCK SCHEDULE

Contract No.	Name	No. of Instalments	No. of Instalments: Paid	Unpaid	Cost Price	Proportion of Cost Price
					£ s. d.	£
1	A. Alan . . .	50	5	45	100 – –	90
2	B. Bloom . . .	52	14	38	78 – –	57
				£	178 – –	£147

(The end column shows the hire purchase stock "out," the total of which is incorporated into the double entry accounts, as below.)

HIRE PURCHASE TRADING ACCOUNT

Dr.		£	*Cr.*		£
To Goods at Cost (*Cr. Purchases*) . . .		178	By Instalments Paid (*Dr. Cash*) . . .		48
,, Gross Profit transferred to Trading Account .		17	,, Stock (as above or transferred to Hire Purchase Stock Account) .	c/d	147
		£195			£195
To Balance—Stock . .	b/d	147			

The separate instalments of cash, detailed above, will be entered in the Cash Book (in practice a separate subsidiary Cash Book will be employed). The debit entry will thus occur in the Cash Book, the totals (daily, weekly, monthly, as required) of which will be credited to the Hire Purchase Trading Account. In this case £48 is the sum to be so treated.

The above entries complete the formal double entry, but entries are also made in respect of cash received in the Memorandum Books. The individual items in the Selling price column of the Hire Purchase Sales Day Book will be debited to the Personal Accounts in the Memorandum Ledger and the total will be posted to the credit of the Memorandum Ledger Adjustment Account, if one be employed.

The cash received will be posted in individual items, as recorded in the Cash Book, to the credit of the individual accounts in the Memorandum Ledger, and in total to the debit of the Memorandum Ledger Adjustment Account.

No. 1 MEMORANDUM HIRE PURCHASE LEDGER

Dr. A. ALAN *Cr.*

1941			£	*1941*			£
Aug. 31	*To Goods*		*200*	*Dec. 31*	*By Cash*		*20*
					,, Balance	*c/d*	*180*
			£200				£200
1942							
Jan. 1	*To Balance*	*b/d*	*180*				

No. 2

Dr. B. BLOOM *Cr.*

1941			£	*1941*			£
Oct. 1	*To Goods*		*104*	*Dec. 31*	*By Cash*		*28*
					,, Balance	*c/d*	*76*
			£104				*£104*
1942							
Jan. 1	*To Balance*	*b/d*	*76*				

It is again emphasized that the Cash Book fulfils the dual function (*a*) of supplying the double entry, and (*b*) of supplementing the Memoranda Accounts, which are completely outside the double entry.

INSTALMENT-PAYMENT PURCHASES

Difference between Hire-Purchase and Instalment-Payment Purchase. Under the hire-purchase system, the property in the goods does not pass to the buyer, but remains vested in the seller until the last instalment has been paid; and, if default is made

in payment, the seller can re-take possession of the goods. Under the instalment-payment system of purchase, however, the property in the goods passes at once to the buyer. He actually owns the goods, although payment for them is to be spread over a series of years. If default is made in payment, the seller cannot re-take possession of the goods; he can only sue for the balance of the debt. This difference naturally causes a variation in the method of book-keeping.

Entries in the Books of the Buyer. The Asset Account will be debited with the *cash value* of the asset, and this amount will be credited to the account of the vendor. The Vendor's Account will be credited each year (or at other intervals as arranged) with interest at an agreed rate on the balance outstanding, the interest being debited to Interest Account. As each instalment is paid, Cash Account will be credited and Vendor's Account debited.

Example 5. The X Co., Ltd., purchases on the instalment-payment system a number of wagons, to be paid for by five annual instalments of £600 each. The cash value of the wagons is £2,597 13s. 9d., and the Wagon Company charges interest at 5 per cent per annum on yearly rests. Write up the accounts in the books of the purchaser, charging depreciation at 10 per cent per annum on the diminishing balance. (See below.)

Alternative Method. In the purchaser's books an Asset Account will be opened and debited with the *cash value* of the goods. The difference between this amount and the purchase price will represent the charge for interest, and will be debited to an Interest Suspense Account. An account will also be opened for the vendor, and will be credited with the total amount to be paid by the purchaser, viz. cash value plus interest. As each instalment is paid, Cash Account will be credited and the Vendor's Account debited. At each annual balancing, a portion of the Interest Suspense Account will be written off (i.e. transferred as a loss to Profit and Loss Account). The amount to be so transferred will be an amount equal to the interest on the then unpaid balance of purchase money. Thus, by the time the period of payment has elapsed, the Interest Suspense Account will be entirely extinguished.

In Purchaser's Books

JOURNAL

		Dr. £ s. d.	*Cr.* £ s. d.
Year 1	Wagon A/c	2,597 13 9	
	To Wagon Company		2,597 13 9
	for present value of Wagons purchased on the instalment-payment system.		

LEDGER

Dr. WAGON ACCOUNT Cr.

Year		£ s. d.	Year		£ s. d.
1	To Wagon Co.	2,597 13 9	1	By Depreciation, 10%	259 15 4
				,, Balance c/d	2,337 18 5
		2,597 13 9			2,597 13 9
2	To Balance b/d	2,337 18 5	2	By Depreciation, 10%	233 15 10
				,, Balance c/d	2,104 2 7
		2,337 18 5			2,337 18 5
3	To Balance b/d	2,104 2 7	3	By Depreciation, 10%	210 8 3
				,, Balance c/d	1,893 14 4
		2,104 2 7			2,104 2 7
4	To Balance b/d	1,893 14 4	4	By Depreciation, 10%	189 7 5
				,, Balance c/d	1,704 6 11
		1,893 14 4			1,893 14 4
5	To Balance b/d	1,704 6 11	5	By Depreciation, 10%	170 8 8
				,, Balance c/d	1,533 18 3
		1,704 6 11			1,704 6 11
	To Balance b/d	1,533 18 3			

Dr. WAGON COMPANY Cr.

Year		£ s. d.	Year		£ s. d.
1	To Cash	600 – –	1	By Sundries	2,597 13 9
	,, Balance c/d	2,127 11 5		,, Interest	129 17 8
		2,727 11 5			2,727 11 5
2	To Cash	600 – –	2	By Balance b/d	2,127 11 5
	,, Balance c/d	1,633 19 –		,, Interest	106 7 7
		2,233 19 –			2,233 19 –
3	To Cash	600 – –	3	By Balance b/d	1,633 19 –
	,, Balance c/d	1,115 12 11		,, Interest	81 13 11
		1,715 12 11			1,715 12 11
4	To Cash	600 – –	4	By Balance b/d	1,115 12 11
	,, Balance c/d	571 8 7		,, Interest	55 15 8
		1,171 8 7			1,171 8 7
5	To Cash	600 – –		By Balance b/d	571 8 7
			5	,, Interest	28 11 5
		600 – –			600 – –

The Journal entry will be—

Year		£ s. d.	£ s. d.
1	Wagon A/c	2,597 13 9	
	Interest Suspense A/c	402 6 3	
	To Wagon Company		3,000 – –
	for wagons purchased on the instalment-payment system.		

The Wagon Account will appear as in the previous example: the account of the Wagon Company and the Interest Suspense Account will be as shown below—

WAGON COMPANY

Dr.		£		Cr.	£
Year 1	To Cash	600	1	By Sundries	3,000
	,, Balance c/d	2,400			
		3,000			3,000
2	To Cash	600	2	By Balance b/d	2,400
	,, Balance c/d	1,800			
		2,400			2,400
3	To Cash	600	3	By Balance b/d	1,800
	,, Balance c/d	1,200			
		1,800			1,800
4	To Cash	600	4	By Balance b/d	1,200
	,, Balance c/d	600			
		1,200			1,200
5	To Cash	600	5	By Balance b/d	600

INTEREST SUSPENSE ACCOUNT

Dr.		£ s. d.	Year	Cr.	£ s. d.
Year 1	To Wagon Co.	402 6 3	1	By Profit and Loss	129 17 8
				,, Balance c/d	272 8 7
		402 6 3			402 6 3
2	To Balance b/d	272 8 7	2	By Profit and Loss	106 7 7
				,, Balance c/d	166 1 –
		272 8 7			272 8 7
3	To Balance b/d	166 1 –	3	By Profit and Loss	81 13 11
				,, Balance c/d	84 7 1
		166 1 –			166 1 –
4	To Balance b/d	84 7 1	4	By Profit and Loss	55 15 8
				,, Balance c/d	28 11 5
		84 7 1			84 7 1
5	To Balance b/d	28 11 5	5	By Profit and Loss	28 11 5

Entries in the Vendor's Books. A Journal entry will be made, debiting the purchaser and crediting the Sales Account with the *cash value* of the goods. Periodically, as arranged, the purchaser will be debited with interest on the balance outstanding, the amount

of the interest being credited to Interest Account. Cash will be debited with the instalment when received, and the amount will be passed to the credit of the purchaser.

Example 6. The X Co., Ltd., purchases on the instalment-payment plan a number of coal wagons, to be paid for by five annual instalments of £600 each. The cash value of the wagons is £2,597 13s. 9d., and the Wagon Company charge interest at 5 per cent per annum on yearly rests. Write up the purchaser's account in the books of the vendor.

LEDGER

Dr. THE X. COMPANY, LTD. *Cr.*

Year		£ s. d.	Year		£ s. d.
1	To Sundries . . .	2,597 13 9	1	By Cash . . .	600 – –
	,, Interest . . .	129 17 8		,, Balance c/d . .	2,127 11 5
		2,727 11 5			2,727 11 5
2	To Balance b/d . .	2,127 11 5	2	By Cash . . .	600 – –
	,, Interest . . .	106 7 7		,, Balance c/d . .	1,633 19 –
		2,233 19 –			2,233 19 –
3	To Balance b/d . .	1,633 19 –	3	By Cash . . .	600 – –
	,, Interest . . .	81 13 11		,, Balance c/d . .	1,115 12 11
		1,715 12 11			1,715 12 11
4	To Balance b/d . .	1,115 12 11	4	By Cash . . .	600 – –
	,, Interest . . .	55 15 8		,, Balance c/d . .	571 8 7
		1,171 8 7			1,171 8 7
5	To Balance b/d . .	571 8 7	5	By Cash . . .	600 – –
	,, Interest . . .	28 11 5			
		600 – –			600 – –

Alternative Method. The goods will be entered at their *cash value* into a special Journal, the amount being credited to Sales Account, and the interest credited to an Interest Suspense Account. The total of both goods and interest is debited to the account of the purchaser. As each instalment is received, it will be debited in the Cash Book and credited to the Purchaser's Account. At balancing time a portion of the Interest Suspense Account will be transferred to Profit and Loss Account as a realized gain. At the end of the period of payment, the Interest Suspense Account will be entirely extinguished.

The Journal entry would be—

JOURNAL

Year		*Dr.* £ s. d.	*Cr.* £ s. d.
1	The X Co., Ltd.	3,000 – –	
	To Sales A/c		2,597 13 9
	,, Interest Suspense A/c . .		402 6 3
	For wagons sold on the instalment-payment system.		

The Purchaser's Account and the Interest Suspense Account are appended.

LEDGER

THE X. COMPANY, LTD.

Dr. *Cr.*

Year		£	Year		£
1	To Sundries . .	3,000	1	By Cash . . .	600
				,, Balance c/d . .	2,400
		3,000			3,000
2	To Balance b/d . .	2,400	2	By Cash . . .	600
				,, Balance c/d . .	1,800
		2,400			2,400
3	To Balance b/d . .	1,800	3	By Cash . . .	600
				,, Balance c/d . .	1,200
		1,800			1,800
4	To Balance b/d . .	1,200	4	By Cash . . .	600
				,, Balance c/d . .	600
		1,200			1,200
5	To Balance b/d . .	600	5	By Cash . . .	600

INTEREST SUSPENSE ACCOUNT

Dr. *Cr.*

Year		£ s. d.	Year		£ s. d.
1	To Profit and Loss .	129 17 8	1	By the X. Co., Ltd. .	402 6 3
	,, Balance c/d . .	272 8 7			
		402 6 3			402 6 3
2	To Profit and Loss .	106 7 7	2	By Balance b/d . .	272 8 7
	,, Balance c/d . .	166 1 –			
		272 8 7			272 8 7
3	To Profit and Loss .	81 13 11	3	By Balance b/d . .	166 1 –
	,, Balance c/d . .	84 7 1			
		166 1 –			166 1 –
4	To Profit and Loss .	55 15 8	4	By Balance b/d . .	84 7 1
	,, Balance c/d . .	28 11 5			
		84 7 1			84 7 1
5	To Profit and Loss .	28 11 5	5	By Balance b/d . .	28 11 5

Royalties. A mineral royalty is a charge of so much per ton on every ton of ore or mineral obtained from a colliery, mine, quarry, pit, etc. The nationalization of the coal mines has done away with coal-mining royalties, and the term "royalty" is now used mainly to mean the amount of money payable for the use of an asset (e.g. to an author for the right to publish his book).

QUESTIONS

1. What are Hire-Purchase Accounts? Explain the entries to be made (*a*) in the buyer's books, (*b*) in the seller's books. How is depreciation dealt with? What other method is there of dealing with Hire-Purchase Accounts?

2. What are Instalment-Payment Purchases? How do they differ from Hire-Purchase? What entries are necessary (*a*) in the buyer's books, (*b*) in the seller's books?

EXERCISE XVIII

1. The X Co., Ltd., agreed to purchase from the International Wagon Co., Ltd., 100 wagons at the price of £50 per wagon, paying for the same by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7 per cent per annum.

The date of the purchase was 1st January, and the first half-yearly instalment was due 1st July.

Write up the X Co.'s Account in the Wagon Co.'s books for three years, and also write up the Wagon Account in the books of the X Co., Ltd., for the same period. (*Chartered Accountants.*)

2. On 1st March, the B. S. Co. obtained machines on the hire-purchase system. The price of the machines was £1,150. Payment was to be made, as to £150 down and as to the balance at £200 per year with 5 per cent interest.

The B. S. Co. write off 10 per cent depreciation each year.

Construct the necessary Ledger Accounts in the books of the Company, showing in detail the entries.

3. A Gas Company deals in stoves on the hire-purchase system. On 1st January A purchased a stove from the Company for 55s., to be paid by twelve equal quarterly instalments of 4s. 6d. each.

The stove cost the Gas Company 37s. 6d.

The four quarterly instalments payable in the first year were duly received by the Company.

How should these transactions appear in the Company's Ledger, so that the year is credited with its proper proportion of the profit earned? (The question of depreciation can be disregarded.) (*Chartered Accountants.*)

4. The Brown Co. purchases machines on the hire-purchase system over a period of five years, payable by annual instalments of £500. The Machine Co. charge Interest at the rate of 5 per cent per annum on the yearly balances. Show the accounts in the books of (*a*) the buyer (depreciation at 10 per cent per annum), (*b*) the seller.

5. Upon being appointed book-keeper to The Whirlwind Automobile Co., Ltd., you find that 10 cars have been sent to various people for trial purposes, "on sale or return." These transactions, however, have been passed through the Company's books as actual sales at ful list prices amounting in all to £5,750.

Is this correct? If not, what rectifications ol the accounts would be necessary?

How should such transactions be treated in the Company's annual accounts as prepared for publication? (*London Chamber of Commerce.*)

6. Is the Profit and Loss Account, as set out on the next page, properly drawn up? If not, submit the account as you would present it.

PROFIT AND LOSS ACCOUNT, 31*st December*

	£		£	£
To Salaries	820	By Stock	18,200	
,, Depreciation	1,401	*Less* 1st January	17,400	
,, Purchases	42,600			800
,, Returns	362	,, Int. on Investments	3,400	
,, Discounts	421	*Less* Loss on Sale of Investments	900	
,, Dividend paid	3,842			2,500
,, Directors' Fees	1,000	,, Balance from last year's account		4,321
,, Trade Expenses	1,200	,, Sales		59,940
,, Dividend (5% for year)	6,200	,, Error in Books		120
,, Manufacturing Wages	3,280	,, Unclaimed Dividends		321
,, Transfer to Reserve A/c	4,000			
,, Balance carried to B/S	2,876			
	£68,002			£68,002

(*R.S.A.*)

7. How would you deal with the undermentioned items when preparing the Annual Accounts of a Limited Company?

1. Transfer of £5,000 to Reserve Fund.

2. £750 Commission and Expenses incurred in the ssue of £8,000 4% Debentures repayable in 8 years from the date of issue.

3. Transfer of £3,500 to the Company's own Marine Insurance Fund.

4. An issue of 100 5% Debentures of £100 each @ 95, repayable in 10 years from the date of issue at par. (*London Chamber of Commerce.*)

8. Two branches of O'Connor & Co., Halifax, received all their goods at cost price from the Head Office. All Cash received is paid to Head Office daily.

From the following particulars, prepare Profit and Loss Accounts of the Branches for the 12 months ended 31st December—

	Alm Rd. £	Beech Rd. £
Rent Account	220	300
Wages and Expenses	515	403
Stock, 1st January	550	840
,, at end of year	430	901
Goods from Head Office	9,170	5,050
Cash paid to Head Office	7,000	6,470
Goods returned to Head Office	5	10
Sundry Debtors, 1st January	215	107
,, ,, 31st December	195	93

(*Civil Service.*)

9. The Patent Rice Food Co., Ltd., was registered as a Private Company in December, 19.., with a nominal Capital of £32,000, divided into 30,000 Ordinary Shares of £1 each, and 200 Founders' Shares of £10 each. The latter shares were issued, as fully paid, to the inventor of the patent food, in consideration for the licence granted by him to the Company for the sole right to manufacture under his patent. The inventor and his friends subscribed for, and were allotted, 20,204 Ordinary Shares, upon which 12s. 6d. per share was called up.

The Company started business on 1st January, and on 30th September an interim dividend of 4%, free of tax, was declared and paid on the paid-up portion of the Ordinary Shares.

On 31st December, the Ledger balances of the Company, in addition to those represented by the above transactions, were as follows—

	£	s.	d.		£	s.	d.
Advertising	1,668	–	–	Office Furniture	219	–	–
Bank Loan	2,000	–	–	,, Salaries	472	–	–
Bills Payable	4,741	–	–	Preliminary Expenses	113	–	–
Calls in Arrear	2	10	–	Purchases	5,816	–	–
Carriage	977	–	–	Rent, Rates, Lighting, and Insurance	247	–	–
Cash at Bank	1,311	–	–	Sales	8,862	–	–
Sundry Debtors	3.592	–	–	,, Returns	119	–	–
Discount on Purchases (*less* Discount on Sales)	93	–	–	Stationery and Office Expenses	77	–	–
Electrical Power for Factory	151	–	–	Sundry Trade Creditors	1,427	–	–
Extension of Leasehold Premises	2,500	–	–	Travellers' Salaries and Expenses	1,166	–	–
Interest on Bank Loan	65	–	–	Wages	2,299	–	–
Machinery Purchased	8,451	–	–				

The Stock-in-hand, as on 31st December, was valued and certified by the Managing Director at £3,075.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

Before preparing these accounts, the following adjustments are necessary. (Give the Journal entries.)

(*a*) The Directors decided to write off Depreciation on the Machinery at the rate of 10% per annum for the 6 months during which the machines had been running.

(*b*) The Directors decided that, as the full benefit had not yet been derived from the expenditure upon Advertising and Travellers' Salaries and Expenses, the former item should be spread over 3 years (current year to bear a full share), and that one-half of the latter should be carried forward to next year.

(*c*) On investigation, it was discovered that the Carriage Account contained items amounting to £236, representing Freight on Machinery erected at the factory, and it was decided to transfer this amount to the Machinery Account. It was also found that the Wages Account included £93, representing the wages of men employed in erecting the machinery; it was decided to treat this item in the same manner.

(*d*) One quarter's Rent of the factory, amounting to £52, was owing on 31st December, and must be reserved for. (*R.S.A.*)

10. The authorized capital of the Streamline Engineering Co., Ltd., is £100,000 in £1 shares. The following trial balance was extracted from the Company's books as on 31st December, 1947—

	Dr. £	Cr. £
Issued Capital (70,000 shares)		70,000
Purchases	32,996	
Sales		123,559
Machinery—		
31st December, 1946	24,080	
Additions during year	1,932	
Fixtures and Fittings, 31st December, 1946	3,195	
Carriage Outwards	1,649	
Salaries (Works $\frac{3}{8}$ths, Office $\frac{5}{8}$ths)	8,125	
Power and Light	2,739	
Repairs to Machinery	1,312	
Advertising	1,937	
Royalties	3,190	
Selling Expenses	4,109	
Stock, 31st December, 1946—		
Goods	8,297	
Loose Tools	1,545	
Apprentices' Premiums		452
Bad Debts	251	
Profit and Loss Account, 31st December, 1946	1,187	
Wages and National Insurance	50,014	
Rent and Rates (Works, £3,729; Office, £627)	4,356	
Dividends Received		276
Discount	2,625	
Interim Dividend	1,750	
Printing and Stationery	527	
Reserve		15,000
Office Expenses	973	
Investments	2,000	
Sundry Debtors and Creditors	47,293	7,158
Cash at Bank	10,363	
	£216,445	£216,445

You are required to prepare the Manufacturing Account, Profit and Loss Accounts, and Balance Sheet of the Company after taking into consideration the following matters, assuming any other necessary figures—

(*a*) The following valuations of the Company's stocks as on 31st December, 1947, were made—

	£
Goods	9,502
Stationery	36
Loose Tools	1,391

(*b*) Wages £247 are outstanding.

(*c*) The item "Wages" includes £548 for work done to the Company's machinery. Of this amount, £428 is the labour cost of making and erecting new machinery and the balance is in respect of repairs.

(*d*) On 21st December a claim of £120 was made by the Company against one of its suppliers for repayment of an overcharge under a contract for materials. The claim was admitted, but no entry in the books had been made.

(*e*) The machinery is to be depreciated at $7\frac{1}{2}$ per cent.

(*f*) £289 of the item "Apprentices' Premiums" is to be carried forward.

11. From the undermentioned figures which were extracted from the books of a manufacturer you are asked to prepare an account or statement in a form which will give the proprietor the maximum information as to his trading results, including the percentages of the various items to turnover, and to state what conclusions can be drawn from the figures—

	Year Ended 30th September 1944	1945
	£	£
Purchases of Material	5,823	6,494
Wages—		
Productive	5,064	6,768
Non-productive	620	984
Returns Inwards	472	1,903
Discount Received	180	36
Salaries	1,560	1,584
Selling Expenses	1,720	2,784
Discount Allowed	420	492
Works Expenses	3,176	3,456
Office Expenses	370	420
Stock at commencement of year	2,189	2,876
Sales	20,472	25,903

The Stock of Material at 30th September, 1945, was valued at £1,882.

12. An English company has a selling branch in New York to which goods are invoiced at a fixed rate. Yearly accounts of the branch are sent to England where they are incorporated in the English books. The accounts sent consist of a Profit and Loss Account and a Balance Sheet—the assets included in the latter are: (*a*) Land, Buildings, and Equipment; (*b*) Unsold Goods; (*c*) Sundry Debtors; and (*d*) Cash. The liabilities consist of: (*a*) indebtedness to the English Head Office; (*b*) Sundry Creditors for New York salaries, expenses, etc.; and (*c*) the Profit and Loss Account balance.

How should the American accounts be incorporated in the English books? Illustrate your answer with *pro forma* Journal entries. (*R.S.A.*)

13. State carefully how you would deal with each of the following in drawing up the Final Accounts of a limited company—

(*a*) Debenture discount not written off.

(*b*) Profit arising on the re-issue of forfeited shares.

(*c*) Bills receivable, discounted by the company, but not yet matured.

(*d*) Provision for discounts on debtors and creditors.

(*e*) Profit on the sale of the company's old premises, the business having been removed to a different district.

(*f*) Profit on the sale of some shares which have been purchased out of funds temporarily in excess of requirements.

(*g*) Profit arising from the re-purchase in the open market at a discount of some of the company's own debentures. (*R.S.A.*)

14. Brown and Jones are partners in an established trading business in London sharing the profits in the proportion of 3 to 2. Smith joined the firm as a partner on 1st April, 1946, on the terms that he was to manage a new branch to be opened forthwith at Brighton and to receive a salary of £400 per annum, a commission equal to 50 per cent of the profits earned by the Brighton branch, and 5 per cent of the remaining profits of the whole business: Brown and Jones sharing the balance in the same proportion as previously.

Interest at 6 per cent is allowed on Capital Accounts, but not on Current Accounts, etc. For the purpose of calculating the Brighton profits, interest at 6 per cent is to be charged on the estimated capital employed there, the fixed assets for this purpose being taken at their book value at the beginning of the

year (ignoring additions, etc.), and the floating assets estimated on an average basis: this estimate for 1946–7 was agreed at £3,000.

The following was the Trial Balance extracted from the firm's books as on 31st March, 1947.

Trial Balance, 31*st March*, 1947

	Dr. £	*Cr.* £
Capital Accounts—		
Brown, 31/3/46		13,000
Jones, 31/3/46		6,000
Jones, additional brought in, 31/5/46		2,000
Smith, brought in, 30/4/46		2,000
Current Accounts, 31/3/46—		
Brown		539
Jones		218
Drawings during Year—		
Brown	2,400	
Jones	1,600	
Smith (excluding salary)	100	
Purchases, *less* Returns—		
London	80,397	
Brighton	11,663	
Sales, *less* Returns—		
London		92,064
Brighton		19,328
Stock, 31/3/46 (London only)	7,390	
Motor Vans—		
London, 31/3/46	4,700	
London, bought, 31/12/46	1,200	
Brighton, 31/3/46	2,200	
Furniture and Equipment—		
London, 31/3/46	3,700	
Brighton, 31/3/46	700	
Brighton, bought, 30/6/46	200	
Sundry Debtors	6,747	
Bad Debts written off—		
London	141	
Brighton	22	
Trade Creditors		3,177
Discount—		
London		204
Brighton		38
Salaries and Wages—		
Smith	400	
General, London	6,195	
General, Brighton	1,830	
Rent—		
London	1,618	
Brighton	294	
Trade and Office Expenses—		
London	3,408	
Brighton	888	
Insurance	223	
Travelling Expenses	174	
Cash at Bank	333	
Cash in Hand	45	
	£138,568	£138,568

Draw up the final accounts of the firm as on 31st March, 1947, giving effect to the following adjustments—

(*a*) Stocks on hand on 31st March, 1947, were valued as follows: London, £9,041; Brighton, £2,362.

(*b*) During the year stock valued at £5,122 had been transferred from London to Brighton, no book entries being made in regard to this.

(*c*) Depreciation on Motor Vans is to be allowed at the rate of 25 per cent per annum, and on Furniture and Equipment at the rate of 10 per cent per annum.

(*d*) Provisions for Bad and Doubtful Debts are to be made as follows: London, £250; Brighton, £70.

(*e*) £582 is to be provided for rent in London, £106 for rent at Brighton, £256 for London general expenses, and £29 for Brighton general expenses. Insurance paid in advance amounts to £31.

(*f*) Insurance and Travelling Expenses are to be charged five-sixths to London and one-sixth to Brighton, and the whole of Smith's salary is to be charged against the Brighton shop. (*R.S.A.*)

15. Sharpe and Austin entered into partnership upon equal terms as to profits or losses of the venture, for the purpose of perfecting an invention with a view to its sale to a Syndicate. No interest was to be paid upon partners' capital prior to division of results. Sharpe contributed £300 and Austin £150 to cover the cost of experiments, Austin giving his personal services without salary.

Upon completion of the necessary experiments, the purchases and expenses were found to have amounted to £478. Sharpe then advanced a further £50 and Austin paid Patent Fees, etc., amounting to £40.

The invention was sold by them to a Syndicate for £1,000 in cash, which was paid to them and 1,000 fully-paid shares of £1 each in the Syndicate, which were duly allotted.

Upon dissolving the partnership, Austin arranged to take over the stock of materials at an agreed valuation of £36, and undertook to discharge outstanding liabilities (if any). Sharpe consented to take over the 1,000 fully-paid shares at an agreed valuation of £50.

Prepare the accounts necessary upon the dissolution of partnership. (*Institute of Book-keepers.*)

16. Freeman, Green, and Hardy are professional men in public practice. You are required to prepare their Income and Expenditure Account for the year ended 31st May, 1948, and Balance Sheet at that date from the following information—

The partnership books disclose the undermentioned balances at 31st May, 1948—

	£
Capitals at 31st May, 1947—	
Freeman	1,000
Green	1,000
Hardy	1,300
Drawings—	
Freeman	500
Green	500
Hardy	300
Work-in-Progress at 31st May, 1947	500
Cash at Bank	560
Debtors for Charges Outstanding	1,565
Sundry Creditors	148
Repairs	19
Office Furniture	260
Typewriters	90
Petty Expenses	62
Insurance	38

	£
Printing and Stationery	92
Travelling Expenses	137
Light and Heat	126
Rent	450
Staff Salaries	2,170
Charges rendered	3,921
The following partnership salaries are chargeable—	
Freeman	500
Green	500
Hardy	300

After charging these Salaries the partners are entitled to Interest at 5 per cent per annum on their Capitals at the beginning of the financial year, and then profits are divisible—

Freeman, three-sevenths; Green, two-sevenths; Hardy, two-sevenths.

At 31st May, 1948—

(*a*) Rent of £150 is outstanding and has not yet been entered in the books.

(*b*) A new typewriter has just been purchased for £30 and had not been entered.

(*c*) Work-in-Progress is valued at £1,750.

(*d*) Debtors to the extent of £77 are considered doubtful and a provision of this sum is to be made. (*Institute of Book-keepers.*)

17. A firm sends goods to customers on approval very frequently. They ask you to recommend a method by which their transactions with customers can be conveniently recorded. Submit your recommendations, and state how goods out on approval when closing the books should be dealt with. Illustrate your answer by suitable rulings of any subsidiary book, or books, you suggest, and make two specimen entries therein. (*W.R. of Yorkshire.*)

18. J. R. Gregson had the following transactions with F. R. Benson—

			£
Jan	1.	Balance due from Benson	250
,,	21.	Sold goods to Benson due in one month after date of sale	186
,,	31.	Drew a Bill on Benson at 1 month's date.	300
Feb.	16.	Bought goods from Benson, due in one month after date of sa'e	233
,,	28.	Accepted Benson's Draft at 2 months' date	400
Mar.	1.	Bought goods from Benson, due for payment, 31st March	376

Prepare an Account Current to be rendered by J. R. Gregson at 31st March, bringing interest into account at 5 per cent per annum. You may work by products or sterling. (*W.R. of Yorkshire.*)

CHAPTER XIX

INSURANCE AND ASSURANCE ACCOUNTS ACCOUNTS OF BUILDING SOCIETIES

INSURANCE ACCOUNTS

INSURANCE or Assurance is a contract under which the insurer (or assurer or underwriter) undertakes to indemnify the insured or assured against a particular loss, or to pay a sum of money on the happening of a certain event. The consideration received by the insurer is a sum of money called the premium, which may be paid weekly, monthly, yearly, or at any other period according to arrangement.

The chief forms of insurance comprise Life, Fire, Marine, Personal Accident, and Employers' Liability, while a large number of insurances are effected annually against risks of Burglary, Loss of Profits, Excessive Bad Debts, Embezzlement, etc.

Insurance and Assurance. The term "assurance" has reference to events which are certain to happen, and is almost exclusively applied in this sense to Life risks. The term "insurance" though also applied to Life risks, is more particularly applicable to those risks which are contingent in their nature, as Fire, Accident, Marine Losses, etc.

Policy. The policy is the document embodying the terms of the contract between the insurer and insured.

Insurance Companies constitute a very important section of commercial enterprise, and the majority of them are long-established and financially sound undertakings.

Companies may be divided broadly into two classes—

1. **Mutual Companies.** Those in which there are no shareholders in the ordinary sense of the term, the whole of the profits being divided among the policy-holders either in the distribution of bonuses or in reduction of premiums.

2. **Proprietary Companies.** Those in which the capital is subscribed by shareholders, who receive dividends according to the profits made, the policy-holders having no interest in the business except the prompt settlement of their claims, unless (in life assurance) their policies are endorsed "with profits," in which case they receive a bonus according to the extent of their insurance with the company.

Surrender Value. On the expiry of a period varying with the particular companies and policies, a life policy possesses what is called "surrender value"; it is a security which has a market value based upon the amount of the premiums paid *less* deductions for

the risk which has already attached to the insurance and for management expenses. The surrender value of a policy in the first few years bears but a small proportion to the premiums paid, but this proportion increases in later years. A life policy can be deposited as security for a loan, though such security is not favoured by bankers, as the policy lapses and the security disappears if the insured fails to pay the premiums or fails to adhere to the terms of the contract, as, for instance, by residing in a forbidden country. In any case, the amount of the loan never exceeds the surrender value.

Insurable Interest. An insurance contract is a contract of indemnity, i.e. the object of insurance is to compensate for any loss suffered and it is not meant to provide a means of gambling on the occurrence or non-occurrence of a particular event by otherwise uninterested persons. Consequently the insured must have an "insurable interest." He must be prejudiced adversely by the occurrence of the event, otherwise the contract is not valid and cannot be enforced in a court of law.

This insurable interest must exist as regards—

Life Assurance—at the time when the policy is issued.

Fire and Accident Insurance—at the time of the loss.

Marine Insurance—at the time of the loss, but when the insurance is taken out a bona fide expectancy of interest is sufficient.

Tariff and Non-Tariff Offices. Tariff insurers are those companies which have formed committees or associations for the pooling of statistical information regarding the incidence of hazards and loss ratios, the methodical classification of fire extinguishment systems, the encouragement of the development of those systems, and the establishment of premium rates based on those factors as applying to each class of risk. Non-tariff insurers are those which prefer to treat each risk on its own individual merits rather than on the experience of its class.

Re-insurance. With a view of averaging losses, insurance companies frequently reinsure with other companies risks which they have undertaken. A company can only undertake risks according to its resources, and, if an insurance is required for a risk which would necessitate a departure from this policy, a part of the risk is reinsured with another company at an agreed premium, which is usually less than the amount received from the person effecting the original insurance.

Procedure. In life assurance a proposal form is filled up, on which full particulars are required as to the insured, his general health, longevity or otherwise of parents, and any information which will guide the insurer in fixing the premium. The questions must be answered in "utmost good faith," as insurance is a contract in which failure to disclose all material facts avoids the policy. This

is, of course, a necessary provision, as the person seeking the insurance is the only one who can provide the information upon which the premium is based.

In marine insurance the particulars are inserted in a "slip." If the insurance is being effected with a member of Lloyd's the slip is filled up by the broker, who then approaches various underwriters until the whole amount to be insured is underwritten, the slip being initialed by the underwriters concerned, the share of the risk undertaken in each case being added. The policy is then drafted, embodying the particulars contained in the slip. Should a loss occur before the policy is made out, the slip is produced as evidence of the date when the insurance was effected, but it is necessary to complete the policy before a claim can be made.

The statutory requirements regarding the conduct of insurance business and the accounts to be kept are given in the Assurance Companies Act, 1909, and later Acts.

Before passing to the accounts, the student should note carefully the following important points—

1. The published Accounts are in the form laid down by the Assurance Companies Acts, 1909–1946, and the Eighth Schedule, III (26), of the Companies Act, 1948.

2. The income and expenditure is recorded in form (*a*) Revenue Account (termed First Schedule); (*b*) Profit and Loss Account (termed Second Schedule). This latter approximates to a Profit and Loss Appropriation Account.

3. The Revenue and Profit and Loss Accounts are in **reverse** form, i.e. the gains are on the DEBIT side, the expenses on the CREDIT side.

4. The accumulated surplus of premiums and consideration for annuities granted over claims, annuities, and expenses, i.e. the "Fund," is entered in the Revenue Account on the debit side at the commencement of the year, and the "Fund" at the end of the year will be the balancing item on the credit side (being brought forward as a debit balance next year).

5. Interest and dividends (being gains) are shown on the debit side of the Revenue Accounts, but they must be shown GROSS and the tax shown separately as a deduction therefrom.

6. The Balance Sheet (Third Schedule) is drawn up on the usual lines, i.e. assets on the right hand and liabilities on the left hand.

7. A special form is required for the Revenue Account according to the class of business transacted, viz.—

Form A. Life Assurance.
B. Fire Insurance.
C. Accident Insurance.
D. Employers' Liability Insurance.
E. Bond Investment.

FORMS OF INSURANCE ACCOUNTS AND BALANCE SHEET

By Section 4 of the 1909 Act it is provided that every assurance company shall, at the expiration of each financial year of the company, prepare—

(*a*) A **revenue account** for the year in the form or forms set forth in the First Schedule to this Act and applicable to the class or classes of assurance business carried on by the company;

(*b*) A **profit and loss account** in the form set forth in the Second Schedule to this Act, except where the company carries on assurance business of one class only and no other business;

(*c*) A **balance sheet** in the form set forth in the Third Schedule to this Act.

The forms of account referred to are as on the following pages.

Example 1. The balances of a Mutual[1] Life Assurance Co. appear in the books on 31st December, 19...

BALANCES		*Dr.*	*Cr.*
		(in £000's) £	(in £000's) £
Mortgages		1,500	
Ground Rents		145	
Loans		155	
Investments		1,120	
Surrenders		25	
Agents' Balances		5	
Railway Stocks		100	
Outstanding Premiums		35	
Premiums			3,394
Claims by Death	£1,000		
" Maturity	700		
		1,700	
Commission		14	
Consideration for Annuities Granted			420
Interest and Dividends			100
Annuities		12	
Fund			950
Bank		50	
Expenses of Management		3	
		£4,864	£4,864

You are required to prepare Final Accounts, ignoring £1,000's.

[1] No share capital exists as contrasted with a proprietary company where there is a share capital owned by the shareholders or "proprietors."

First Schedule

REVENUE ACCOUNT OF THE MUTUAL LIFE ASSURANCE CO.
FOR THE YEAR ENDED 31ST DECEMBER, 19.., IN RESPECT OF LIFE ASSURANCE BUSINESS

Dr.		£			*Cr.* £
Amount of Life Fund		950	Claims by Death	£1,000	
Premiums		3,394	" " Maturity	700	
Consideration for Annuities Granted		420			1,700
Interest and Dividends	£ ?		Surrenders		25
Less Income Tax	?		Annuities		12
		100	Commission		14
			Expenses of Management		3
			Amount of Life Fund		3,110
		£4,864			£4,864

Third Schedule

BALANCE SHEET
AS AT 31ST DECEMBER, 19..

Liabilities	£	*Assets*		£
Life Assurance Fund	3,110	Mortgages		1,500
		Loans		155
		Investments—		
		British Government and other Funds [in specified order]	1,120	
		Railway Stocks	100	
		Ground Rents	145	
				1,365
		Agents' Balances		5
		Outstanding Premiums		35
		Bank		50
	£3,110			£3,110

The Second Schedule (i.e. Profit and Loss) will simply consist of the balance of revenue (i.e. First Schedule) as there are no appropriations or other profits in this illustration.

In the foregoing illustration it will be noted that there was an accrual item, "Outstanding Premiums." This would have been created by the following Journal entry—

		(a)	(b)
Outstanding Premiums Account	*Dr.*	—	
To Premiums Account[1]			—

In addition to the above a similar entry would be required where interest and dividends are outstanding, i.e.—

		(a)	(b)
Interest and Dividends Outstanding Account	*Dr.*	—	
To Interest and Dividends Account[1]			—

[1] The above are credits in the books, but debits in the First Schedule.

On the reverse side there will be adjustments for the following items accruing against the company—

(1) Claims admitted but not paid.

(2) Claims for surrenders admitted but not paid.

The entries will be—

		(b)	(a)
(1) Claims Account	Dr.[1]	—	
To Claims Outstanding Account			—
(2) Surrenders Account	Dr.[1]	—	
To Surrenders Unpaid Account			—

Items in columns marked (*a*) are assets or liabilities, whilst those in columns marked (*b*) are revenue items, and these appear on the reverse side in the First Schedule.

Care must be exercised in dealing with this type of problem because *accruals* may be listed with the balances although they have not actually been made, in which case they must be eliminated from the Trial Balance; if they have already been dealt with, then the effect has been already given thereto in the accounts and the item is either an asset, e.g. outstanding premiums, or a liability, e.g. claims unpaid.

Example 2. From the following information prepare Final Accounts in abridged form.

BALANCES

	Dr.	Cr.
	£	£
Premiums received		1,100
Claims paid	400	
Assets	4,000	
Liabilities		630
Fund-opening		600
Capital		2,000
Interest and Dividends received		180
Surrenders paid	110	
	£4,510	£4,510

	£
(1) Premiums outstanding	45
(2) Accrued Interest and Dividends	37
(3) Claims admitted but not paid	32
(4) Surrender Claims not paid	11

The Premiums Account will be credited with £45, making the premiums £1,145 and an asset of £45. The second item will be dealt with in a similar manner. Items 3 and 4 will be dealt with in the opposite direction, i.e. (3) Claims Account of £400 will be

[1] The above are debits in the books, but credits in the First Schedule.

increased to £432 and a liability created of £32; similarly with item 4.

First Schedule

Dr. REVENUE ACCOUNT *Cr.*

	£		£
Fund (Opening) . .	600	Claims (3) . . .	432
Premiums (1) . .	1,145	Surrenders (4) . .	121
Interest and Dividends (2) . . £ ? *Less* Income Tax ?	217	Fund (Closing) . .	1,409
	£1,962		£1,962

Third Schedule

BALANCE SHEET

Liabilities	£	*Assets*	£
Capital	2,000	Sundry Assets . . .	4,000
Fund	1,409	Premiums outstanding (1) .	45
Liabilities	630	Interest and Dividends outstanding (2) . . .	37
Claims (3)	32		
Surrender Claims (4) . .	11		
	£4,082		£4,082

Example 3. On 31st December, 1950, the books of the Safety Assurance Co., Ltd., contained the following balances in respect of the personal accident insurance—

	£		£
Estimated Liability in respect of Outstanding Claims—		Medical and Legal Expenses in connexion with Claims	2,500
On 31st December, 1949	3,500	Premiums	75,000
On 31st December, 1950	7,600	Interest and Dividends—	
Provision for Unexpired Risks on 31st December, 1949 .	35,000	Amount received after deduction of tax . .	3,100
Expenses of Management .	20,000	Profit on Sale of Securities .	350
Commission . . .	12,500	Reinsurance Premiums .	5,000
Claims Paid (*less* Reinsurances received) . .	38,500	Reinsurance Recoveries .	1,000

Prepare in detail the Personal Accident Insurance Account, reserving for unexpired risks 40 per cent of premiums, and treating the surplus, if any, as additional reserve.

SAFETY ASSURANCE CO., LTD.

First Schedule

(c) FORM APPLICABLE TO ACCIDENT INSURANCE BUSINESS

Dr. REVENUE ACCOUNT FOR THE YEAR ENDING 31ST DECEMBER, 1950 *Cr.*

		£			£
Amount of Accident Insurance Fund at the beginning of the year—			Payment under policies, including medical and legal expenses in connexion therewith (Net)[1] . . .		41,000
Reserve for unexpired risks .	£35,000		Commission		12,500
Total estimated liability in respect of outstanding claims . .	3,500		Expenses of Management .		20,000
Additional Reserve	—		Other Payments— Reinsurance Premiums .		5,000
		38,500	Amount of Accident Insurance Fund at the end of the year—		
Premiums		75,000	Reserve for unexpired risks, being 40% of premium income for the year . .	£30,000	
Interests, Dividends and Rents .	£ ?		Total estimated liability in respect of outstanding claims . .	7,600	
Less Income Tax	?		Additional Reserve	1,850	
		3,100			39,450
Other Receipts— Profit on Sale of Securities .		350			
Reinsurance recoveries . .		1,000			
		£117,950			£117,950

[1] It should be noted that where there are any reinsurance premiums, the claims figure will be reduced by the amount applicable to claims made against other insurance companies for which they have undertaken liability under such reinsurance.

Example 4. From the following Trial Balance prepare Final Accounts in *correct form.*

TRIAL BALANCE

	Dr.	Cr.
	£	£
Share Capital		200,000
British Government Securities	140,000	
Dominion and Colonial Government Securities	60,000	
Foreign Government Securities	60,060	
Reserve for Income Tax		10,000
Interest and Dividends		15,000
Agents' Balances	12,500	
Claims admitted but not paid		32,000
Outstanding Interest and Dividends	1,500	
Bank	68,780	
Fire Insurance Fund		7,000
Profit and Loss		31,000
Premiums—		
Fire		27,000
Life		102,000
Claims paid and outstanding—		
Fire	11,000	
Life	71,000	
Commission—		
Fire	1,100	
Life	8,800	
Expenses of Management—		
Fire	9,200	
Life	13,460	
Income Tax	14,600	
Life Fund		48,000
	£472,000	£472,000

Pending the quinquennial valuation in respect of the life branch a reserve of 45 per cent of premium income is to be made in the life and fire branches.

The funds will be those at the commencement. If all the Revenue Accounts had been closed off prior to the extraction of the Trial Balance, the "Funds" would be closing funds.

First Schedule

(a) [1] Form Applicable to Life Assurance Business

Dr. REVENUE ACCOUNT for the Year Ending............... Cr.

	£		£
Amount of Fund at beginning of year	48,000	Claims paid and outstanding— by Death . £ ? by Maturity . ?	71,000
Premiums	102,000	Commission	8,800
		Expenses of Management	13,460
		Reserve for unexpired risks, being 45% of the premium income for the year	45,900
		Transfer to Profit and Loss Account	10,840
	£150,000		£150,000

First Schedule

(b) Form Applicable to Fire Insurance Business

Dr. REVENUE ACCOUNT for the Year Ending............... Cr.

	£		£
Amount of Fund at the beginning of year	7,000	Claims paid and outstanding	11,000
Premiums	27,000	Commission	1,100
		Expenses of Management	9,200
		Reserve for unexpired risks being 45% of the Premium Income for the year	12,150
		Transfer to Profit and Loss Account	550
	£34,000		£34,000

Second Schedule

Dr. PROFIT AND LOSS ACCOUNT for the Year Ending................. Cr.

	£		£
Balance b/f	31,000	Income Tax	14,600
Interest, Dividends, and Rents not carried to any other Account . £ ? *Less* Income Tax . ?	15,000	Balance carried forward as per Third Schedule	42,790
Transfer from Fire Insurance Account	550		
Transfer from Life Assurance Account	10,840		
	£57,390		£57,390

[1] Actually the form is subdivided into business done within the United Kingdom and out of the United Kingdom.

Third Schedule

BALANCE SHEET OF THE.................ON THE................

Liabilities	£	*Assets*	£
Capital authorized and issued— 200,000 shares of £1 each, fully paid	200,000	Mortgages on Property in the U.K. .	
Life Assurance Fund . . .	45,900	Mortgages on Property outside the U.K.	
Fire Insurance Fund . . .	12,150	Loans on Life Interests—	
Sinking Fund and Capital Redemption Fund		Reversions.	
Profit and Loss Account . .	42,790	Stocks and Shares . .	
Claims admitted or intimated, but not paid	32,000	Investments—	
Other Funds.		British Government Securities .	140,000
Income Tax Reserve . . .	10,000	Dominion & Colonial Government Securities	60,000
		Foreign Government Securities .	60,060
		Railway and Other Debentures .	
		Railway and other Preference and Guaranteed Stocks . . .	
		Railway Ordinary Stocks . .	
		Rent Charges	
		Freehold Ground Rents . .	
		Leasehold Ground Rents . .	
		House Property	
		Reversions.	
		Agents' Balances . . .	12,500
		Outstanding Premiums . . .	
		Outstanding Interest, Dividends, and Rents	1,500
		Bills Receivable . . .	
		Cash: on Deposit . . £ ?	
		on Hand and on Current Account ?	68,780
		Other Assets (specified)	
	£342,840		£342,840

The Balance Sheet is given in more detail than is required by the question in order to show the main contents and *sequence.*

ACTUARIAL REPORT

Section 5 provides that every assurance company shall once in every **five years** or at such shorter intervals as may be prescribed by the instrument constituting the company or by its by-laws, cause an investigation to be made into its financial condition, including a valuation of its liabilities, by an actuary, such abstract to be made in the forms provided.

WINDING UP OF ASSURANCE COMPANY

Every company formed to conduct insurance business after October, 1945, must be incorporated with a paid-up share capital of £50,000 or more. An insurance company which carries on a general business is, after the expiration of two years from beginning such business, liable to be wound up by order of the Court if the value of its assets is not more than its total liabilities by either £50,000 or one-tenth of the general premium income of the company in the last preceding financial year, whichever amount is the greater.

ASSIGNMENT OF A LIFE POLICY IN SATISFACTION OF A DEBT

It frequently happens that a debtor assigns his life policy to a creditor in satisfaction of his liability, in which case the assignee must pay the premiums. In taking over the policy the creditor will credit the debtor only with its surrender value, as this is the value which is available on surrender, the assignee being in no better position than the assignor.

If, in the creditor's books, there remains a debit balance on the debtor's account after the credit given for the surrender value of the policy, it will be written off to Bad Debts Account. There are alternative treatments in respect of the policy and the premiums, viz.—

Upon receipt of policy—

(1) (*a*) Debit Policy Account with surrender value.
Credit Debtor with surrender value.
(*b*) Debit Bad Debts Account with loss.
Credit Debtor.

(2) Debit Policy Account with investment value.
Credit Debtor with surrender value.
Credit (*a*) Policy Account with the excess of investment over surrender value, or
(*b*) Bad Debts Account do. do.

Treatment of Premiums. The premiums paid may be dealt with as follows—

(*a*) Debit Profit and Loss Account. Credit Cash.

(*b*) Debit Capital, Drawings, Current or Reserve Account in profit and loss ratios. Credit Cash.

(*c*) Debit Life Policy Account. Credit Cash.

(*d*) As in (*c*), and debit the Life Policy Account with loading for interest, and credit Profit and Loss Account.

(*e*) Each year bring down the balance (representing the investment or surrender value) either in the Life Policy Account or by adjustment of the Reserve, writing off the difference as in (*a*) or (*b*).

(*f*) Debit premiums to the Life Policy Account and revise the value thereof through the Life Policy Reserve Account, the value in question being investment or surrender value.[1]

If the policy is to be maintained at investment value, interest may be debited thereto and credited to Profit and Loss Account; but if it is to be maintained at surrender value, the latter value will be credited in the Policy Account and brought down, the difference being transferred to the debit of Profit and Loss Account, as the increase in surrender value will be *less* than the premium paid.

Upon receipt of policy money—

Debit Cash. Credit Policy Account.
Debit Policy Account. Credit Profit and Loss Account.

[1] There are companies which deal with policies by way of purchase and sale. Their price will be generally higher than surrender and lower than investment value.

Example. A, owing B £1,000, agrees to assign his life policy to him in complete discharge of the debt. The assignment is made on 1st July, 1948, the policy being for £1,750. The premium is £60, payable yearly on 1st September.

On 15th January, 1950, A dies, the policy money being paid to B on 31st January, 1950.

The surrender values are (1) at the date of assignment, £320; (2) at 31st October, 1948, £358; and (3) at 31st October, 1949, £398.

B prepares his accounts annually at 31st October.

Assuming that B desires to keep the policy at its surrender value, show the necessary Ledger Accounts in his books.

Dr. A. *Cr.*

		£			£
1948 July 1	To Balance b/d	1,000	1948 July 1	By Life Policy Account *re* A.—Policy taken over in discharge, Surrender Value	320
				,, Bad Debts Account	680
		£1,000			£1,000

LIFE POLICY ACCOUNT No.................

Dr. *re* A. *Cr.*

		£			£
1948 July 1	To A.—Policy taken over, Surrender Value	320	1948 Oct. 31	By Profit and Loss Account	22
Sept. 1	,, Cash—Yearly Premium	60		,, Balance c/d.	358
		£380			£380
1948 Nov. 1	To Balance b/d	358	1949 Oct. 31	By Profit and Loss Account	20
1949 Sept. 1	,, Cash—Yearly Premium	60		,, Balance c/d.	398
		£418			£418
1949 Nov. 1	To Balance b/d	398	1950 Jan. 31	By Cash	1,750
1950 Jan. 15	,, Profit and Loss Account	1,352			
		£1,750			£1,750

Alternatively, the same result may be arrived at by showing the Policy at its *nominal* value and opening a Policy Reserve Account thus (dealing only with the first year)—

LIFE POLICY ACCOUNT

Dr. *re* A. *Cr.*

		£			
1948 July 1	To A.—Policy taken over, Surrender Value	320			
	,, Life Policy Reserve	1,430			
		£1,750			

LIFE POLICY RESERVE

re A.

Dr.					Cr.
1948		£	1948		£
Sept. 1	To Cash—Yearly Premium	60	July 1	By Life Policy Account—re A.	1,430
Oct. 31	,, Balance c/d[1]	1,392	Oct. 31	,, Profit and Loss Account	22
		£1,452			£1,452
			1948 Nov. 1	By Balance b/d	1,392

Ignoring interest, there is a profit of £630 to B, arrived at as follows—

	£	£
Profit on Life Policy		1,352
Less amounts written off—		
Year ended 31st October, 1948	22	
,, ,, 1949	20	
	—	42
Balance		1,310
Less Bad Debt written off		680
Profit		£630

This may be reconciled with the cash receipts as follows—

	£	£
Cash received on 31st January, 1950		1,750
Less Premium paid on 1st September, 1948	60	
,, ,, ,, 1949	60	
	—	120
Net Cash received		1,630
Less Debt due by A.		1,000
Profit		£630

ACCOUNTS OF BUILDING SOCIETIES

Under the Building Societies Act, 1894 (Section 2), the annual account is to be submitted "in such form and shall contain such particulars as the Chief Registrar of Friendly Societies may from time to time, with the approval of a Secretary of State, direct, either generally or with respect to any society or class of societies."

The main sections of the published accounts are as below—

Receipt and Payments Account, being a summarized copy of the Building Society's Cash Book.

Revenue and Expenditure Account, consisting of Shareholders' Account, Deposit and Loan Account, Mortgages Account, Profit and Loss Account, and Appropriation Account.

Liabilities and Assets Account, the equivalent of a company's Balance Sheet, but in *Dr.* and *Cr.* form, using the prefixes "To" and "By" as in an ordinary account.

[1] Nominal value of policy, £1,750, less surrender value of policy, £358.

Building Society Loans. Some societies debit interest monthly; others debit it only once a year; others, again, adjust the capital quarterly. The method to be adopted will be stated in the question set by an examiner, and the following is an example—

Example. A building society states that a loan of £400 over a period of ten years at 4½ per cent per annum interest will be repaid by monthly payments of £4 4s. 3d. Show the account of the borrower in the books of the Building Society.

Dr. LOAN ACCOUNT *Cr.*

		£ s. d.			£ s. d.
Year 1	Loan	400 – –	Year 1	Repayments . .	50 11 –
	Interest . . .	18 – –		Balance c/d . .	367 9 –
		£418 – –			£418 – –
Year 2	Balance b/d . .	367 9 –	Year 2	Repayments . .	50 11 –
	Interest . . .	16 10 8		Balance c/d . .	333 8 8
		£383 19 8			£383 19 8
Year 3	Balance b/d . .	333 8 8	Year 3	Repayments . .	50 11 –
	Interest . . .	15 – 1		Balance c/d . .	297 17 9
		£348 8 9			£348 8 9
Year 4	Balance b/d . .	297 17 9	Year 4	Repayments . .	50 11 –
	Interest . . .	13 8 1		Balance c/d . .	260 14 10
		£311 5 10			£311 5 10
Year 5	Balance b/d . .	260 14 10	Year 5	Repayments . .	50 11 –
	Interest . . .	11 14 8		Balance c/d . .	221 18 6
		£272 9 6			£272 9 6
Year 6	Balance b/d . .	221 18 6	Year 6	Repayments . .	50 11 –
	Interest . . .	9 19 9		Balance c/d . .	181 7 3
		£231 18 3			£231 18 3
Year 7	Balance b/d . .	181 7 3	Year 7	Repayments . .	50 11 –
	Interest . . .	8 3 3		Balance c/d . .	138 19 6
		£189 10 6			£189 10 6
Year 8	Balance b/d . .	138 19 6	Year 8	Repayments . .	50 11 –
	Interest . . .	6 5 –		Balance c/d . .	94 13 6
	£	145 4 6			£145 4 6
Year 9	Balance b/d . .	94 13 6	Year 9	Repayments . .	50 11 –
	Interest . . .	4 5 2		Balance c/d . .	48 7 8
		£98 18 8			£98 18 8
Year 10	Balance b/d . .	48 7 8	Year 10	Repayments . .	50 11 –
	Interest . . .	2 3 4			
		£50 11 –			£50 11 –

QUESTIONS

1. Explain the characteristics of the two classes of life assurance companies—Mutual Companies and Proprietary Companies.
2. What is the "surrender value" of a life policy? Upon what is such value based?
3. What is an "insurable interest"? Explain by reference to examples.
4. Explain "Non-tariff" office; re-insurance; "proposal form"; "slip."
5. What are the statutory provisions regarding the preparation of yearly accounts? Give an outline of Revenue Account in respect of life assurance.
6. At what periods are the profits ascertained and what information must be supplied at the quinquennial audit?
7. In what way are the accounts of Building Societies controlled?

EXERCISE XIX

1. The Steadfast Assurance Co., Ltd., was registered in 19.., and during that year the whole of the Share Capital (consisting of 100,000 shares of £1 each) was paid up in full. Submit *pro forma* accounts for the year ended 31st December, in accordance with the provisions of the Assurance Companies Act, 1909; and point out wherein the form of the prescribed accounts varies from that usually employed by Companies registered under the Companies Acts. (*R.S.A.*)

2. On 31st December, the balances of the General Ledger of the Holdfast Assurance Co. were as follows—

Funds as on 1st January, £1,557,060; Premium Account, £142,000; Claims Account, £70,050; Annuities Paid, £1,260; Commission Account, £6,032; Interest and Dividends Account, £51,000; Transfer Fees Account, £105; Surrenders Account, £11,201; Management Expenses Account, £18,670; Shareholders' Dividends Account, £2,500; Claims admitted but not paid Account, £7,200; Sundry Creditors Account, £3,980; Mortgages in the United Kingdom, £1,201,450; Loans on Policies, £50,060. Investments: Government Stocks, £204,000; British Railways, £138,200; House Property, £7,500; Agents' Balances, £12,200; Outstanding Premiums, £9,200; Outstanding Interest, £12,040; Cash at Bank, £16,982.

Prepare Revenue Account and Balance Sheet as on 31st December.
(*London Chamber of Commerce.*)

3. Give a form (or forms) of ruling of a Cash Book, suitable for the recording of the Receipts and Payments of a Life Assurance Co. with a large business and many agencies. (*R.S.A.*)

4. Prepare, in the proper statutory form, the Revenue Account of the Minster Assurance Co., Ltd., for the year ended 31st December, from the following figures—

Claims: By death, £76,140; by maturity, £30,110. Premiums, £705,690. Transfer Fees, £129. Consideration for Annuities granted, £82,127. Annuities paid, £53,461. Bonuses paid in Cash, £2,416. Expense of Management, £31,920. Commission, £9,574. Interest, Dividends, and Rents, £97,840. Income Tax thereon, £5,710. Surrenders, £13,140. Bonuses in reduction of Premiums, £980. Dividends paid to Shareholders, £5,500. Amount of Life Assurance Fund at the beginning of the year, £1,521,000.
(*London Chamber of Commerce.*)

5. The undermentioned figures have been extracted from the books of the Thamesmouth Life Assurance Co., Ltd., as on 31st December.

Amount of Life Assurance Fund at the beginning of the year	£1,650,540
Fines for revival of Policies	620
Expenses of Management	86,460
Amount of Life Assurance Fund at the end of the year	1,810,120

Prepare the Revenue Account of the Company, inserting imaginary figures for the remainder of the items you would expect to find in such an account.
(*R.S.A.*)

6. From the following figures relating to the Devonshire Life Assurance Co., compile its Revenue Account and Balance Sheet for the year ending 31st December, in the prescribed form. Shareholders' Capital £250,000 in 2,500 shares of £100 each, with £10 paid up on each.

	£		£
Shareholders' undivided Profits	33,786	Loans on Company's Policies	90,152
Life Assurance Fund on 1st Jan., including paid-up Capital and undivided Profits	1,825,412	Freehold Ground Rents	1,218,310
Claims by death	93,067	Claims admitted, but not paid	5,846
,, matured by survivance	47,466	Claims announced—not admitted	22,846
Surrenders	8,636	Colonial Government Securities	147,259
Commission	8,224	Railway Shares, etc.	74,145
Premiums	134,872	House Property	105,292
Interest, Dividends, and Rents received	72,563	Agents' Balances outstanding	19,976
Management Expenses	25,860	Outstanding Interest and Rents receivable	16,968
Dividends to Shareholders	3,265	Outstanding Premiums—Head Office	1,465
Fines and Fees	201	Sundry Creditors	142
Income Tax	3,525	Cash in hand and at Bank	5,994
Written off Securities upon Re-valuation	17,089	Furniture and Fittings	2,857
Mortgages in United Kingdom	172,332		

7. Are Assurance Companies under any statutory obligations with regard to their annual accounts?

From the undermentioned figures, prepare the Revenue Account of the East Coast Assurance Co., Ltd., for the year ended 31st December, and state the amount of Life Assurance Fund on that date.

	£		£
Amount of Life Assurance Fund at the beginning of the year	2,567,000	Interest and Dividends	64,500
Surrenders	9,462	Income Tax paid thereon	3,762
Premiums	620,500	Annuities paid	21,640
Consideration for Annuities granted	38,450	Commission	10,700
Bonuses paid in cash	7,480	Fines for revival of Policies	120
Expenses of Management	18,750	Claims (by death)	12,500
		,, (by maturity)	27,800
		Dividends paid to Shareholders	10,450

(London Chamber of Commerce.)

8. The following are the Ledger Balances of a Life Assurance Society on 31st December, and include a year's transactions. The Assurance Fund is excluded—

	£		£
Premiums received	60,000	Sundry Creditors	1,000
Interest, Dividends, and Rents (*Cr.*)	30,000	Mortgages	90,000
Claims paid and outstanding	60,000	Loans on Life Interests, Reversions, etc.	350,000
Surrendered Policies	5,000	Investments	400,000
Commission	2,000	Outstanding Premiums (good)	6,000
Management Expenses	5,000	,, Interest	1,000
Depreciation of Investments	7,000	Cash in hand and with Bankers	15,000
Capital	30,000		
Claims admitted, but not paid (*Cr.*)	11,000		

Prepare a Balance Sheet and Revenue Account showing the Assurance Fund as on 31st December, and state by how much it has increased during the year.

(Chartered Accountants.)

9. Prepare a Revenue Account and Balance Sheet from the following list of balances in the books of a Life Assurance Co.—

	£		£
Assurance Fund at the beginning of the year	3,600,000	Leasehold Ground Rents (Investments)	6,000
Annuities Paid	12,500	Mortgages within the United Kingdom	800,000
Bonuses to Policy-holders	15,000	Mortgages on Rates	1,200,000
British Government Securities	190,000	Other Sums owing by the Company	1,200
Consideration for Annuities granted	14,000	Outstanding Premiums and Agents' Balances	56,000
Claims Admitted, but not paid	14,500	Outstanding Interest (receivable)	57,000
Claims Paid	280,000	Premiums	460,000
Commission Paid	27,000	Premises and Furniture	26,000
Cash at Bank	45,000	Reserve Fund	150,000
Expenses of Management	37,000	Rent Charges (Investments)	36,200
Indian and Colonial Government Securities	110,000	Railway and other Debentures	1,150,000
Interest and Rents received	130,000	Surrenders	42,000
Loans on Company's Policies	280,000		

(Chartered Accountants.)

10. From the following Trial Balance prepare Balance Sheet and Revenue Account of the Life Assurance Society.

	£		£
Mortgages on Property within the United Kingdom	400,000	Surrenders on Business within the United Kingdom	20,000
Mortgages on Property out of the United Kingdom	50,000	Surrenders on Business outside the United Kingdom	1,000
Loans on Life Interests	100,000	Cash in hand	50,000
,, on Reversions	200,000	Claims admitted, but not paid (*Cr.*)	10,000
,, on Society's Policies within their surrender values	600,000	Claims on Business within the United Kingdom	200,000
Investments—		Claims on Business outside the United Kingdom	10,000
Municipal Securities, United Kingdom	500,000	Sundry Creditors	15,000
Indian and Colonial Government Securities	1,000,000	Amount of Life Insurance Fund at beginning of year	4,000,000
Freehold Ground Rents	800,000	Expenses of Management	20,000
Reversions	500,000	Premiums on Business within the United Kingdom	480,000
Outstanding Premiums	50,000	Premiums on Business outside the United Kingdom	6,000
Outstanding Interest, Dividends, and Rent	10,000		

[Note. £10,000 Indian and Colonial Government Securities have been deposited with the Government of South Africa in respect of Life Assurance business.]

(Incorporated Accountants.)

11. H. Stevens owes £1,000 to Harry Redman for goods supplied, but as he is unable to pay the debt he agrees to assign his Life Assurance Policy to H. Redman as at 1st January, 1942. The policy is for £1,800 without profits payable at the age of 55 or previous death, and carrying an annual premium of £90.

H. Stevens's present age is 47, and the surrender value of the policy is £607. Harry Redman elects to keep the Policy alive by paying the annual premiums as and when they become due, and in consequence pays the first premium of £90 on the 31st December, 1942, and subsequent premiums on the same date each year.

The surrender value of the policy as on 31st December, 1942, was £658; at the 31st December, 1943, £720; the 31st December, 1944, £800; the 31st December, 1945, £898.

H. Stevens dies on the 4th January, 1946, and the policy moneys are duly received from the Insurance Company.

Show H. Stevens's account, the Policy account, and the Reserve on Policy account, recording these transactions in the books of Harry Redman.

(*Faculty of Teachers in Commerce.*)

12. Some years ago Z obtained a loan on mortgage from a building society. Repayment, including interest at 5 per cent per annum on the outstanding balance, was to be made by equal half-yearly sums of £26 3s. 7d. on 30th June and 31st December. After the repayment made on 30th June, 1945, the balance of the loan was £121 12s. 6d. Show the Loan Account as it would appear in Z's books from this date till the final repayment. (*R.S.A.*)

13. Smith owes Jones £800, and agrees to assign him his Endowment Assurance Policy in settlement of the debt. The policy, which is for £1,200, is assigned on the 1st January, 1944, the annual premium being £50, payable on the 1st April. The surrender values of the policy were as follows—

	£
1st January, 1944	400
30th June, 1944	430
30th June, 1945	470
30th June, 1946	515

Smith dies on the 18th September, 1946, and the insurance company paid the money to Jones on the 31st October, 1946.

Show the above transactions in Jones's books.

Jones prepares his accounts at the 30th June in each year.

(*Corpn. of Certified Secretaries.*)

14. The following are the items in the Balance Sheets of two companies on 31st December, 19..—

	A	B
	£	£
Capital Authorized	200,000	50,000
Capital Issued (£1 shares fully paid)	100,000	50,000
Plant and Machinery	24,000	6,000
Stock	13,000	11,000
Forfeited Shares	1,000	—
Reserve	24,000	—
Debtors	68,000	12,000
Creditors	22,000	9,000
Profit and Loss Account	18,000	15,000
Premises	32,000	5,000
Preliminary Expenses	—	4,000
Bills Payable	5,000	—
Goodwill	20,000	9,000
Cash at Bank	13,000	—
Bank Overdraft	—	3,000

It is arranged that Company A shall absorb Company B, the terms being that the former shall discharge all liabilities and issue to the members of Company B 40,000 fully-paid shares.

You are rquiried to draw up the Balance Sheet of Company A after the above arrangement has been carried out. (*R.S.A.*)

15. Messrs. Gorgonzola & Co., of London, yesterday bought bills on Cape Town to the amount of £1,842 5s. 6d. Suggest some object or purpose intended by this operation. Describe it, with the use likely to be made of the Bills, and give the form such as you would suppose one of the Bills to have. *(R.S.A.)*

16. A. & Co., Lagos, consign to B & Co., Liverpool, for sale on joint adventure, native produce purchased at a cost of £22,000. This was paid for as to £5,000 in cash supplied by A & Co., and as to the balance by goods purchased and shipped by B & Co. at a cost of £15,500.

A & Co. disburse £1,831 5s. 6d. for Freight and Insurance, B & Co. incurring expenses of £150, plus an agreed proportion of their establishment charges, £293; and the net profit is then equally divided.

Prepare an account as it would appear in the Ledger of B & Co., showing the final settlement. *(Incorporated Accountants.)*

NOTE. The sale of native produce may be assumed to have realized 20 per cent on initial cost.

17. The following Ledger Accounts appear in the Trial Balance of a company. State how you would deal with the items in preparing the Annual Accounts, and briefly comment on any points which would need special consideration.

(*a*) Goodwill Account; (*b*) Repairs Provision Account; (*c*) Unclaimed Dividends Account; (*d*) Debenture Issue Expenses Account; (*e*) Preliminary Expenses Account; (*f*) Expenditure during the year on the company's Leasehold Works Account; (*g*) Forfeited Shares Account (amount of cash received on forfeited shares). *(R.S.A.)*

18. Describe clearly and illustrate the methods with which you would deal in books of account with each of the following—

(*a*) N Co. draw a Bill dated 5th January for £1,000 at six months; it is accepted by R, the company agreeing to pay him cash seven days before the due date. The draft is discounted by D B for £925, and guaranteed by H for a commission of £50. The Bill is not met, but is renewed twice for periods of three months each. On each renewal, D B charges £50 and H £25. The third Bill is met and all liabilities discharged. The books of account are those of the Company.

(*b*) G C agrees to purchase at par from J P 1,000 fully-paid shares of £1 each in a company, and pays on account three sums of £150 each on 1st December, 4th January, and 3rd February. On the last date, G C states he can pay no more, and requests that the shares be sold. J P sells them to W for 18s. each.

Show the transaction in J P's books and also in G C's.

(*c*) The Directors of a company have forfeited 500 shares of £1 each, on which 10s. has been paid by B. They re-issue the shares to D, calling up 15s. per share.

Show the transaction in the company's books. *(Incorporated Accountants.)*

19. Lead & Hall, Ltd. Balances 31st December—

	£	*s.*	*d.*		£	*s.*	*d.*
1,164 Ordinary Shares £7 each, £5 10s. per share called up	6,402	–	–	Trade Fixtures and Utensils, 1st Jan.	360	–	–
30 Vendors' Shares £7 each, fully paid	210	–	–	Horse and Van, 1st Jan.	30	–	–
Prepaid on 32 Ordinary Shares	48	–	–	Chas. Johnson, Mortgage (*Cr.*)	3,500	–	–
Stock, 1st Jan.	3,644	18	8	Directors' Remuneration	206	12	–
Engine, Boiler, and Shafting, 1st Jan.	170	–	–	Bank Charges	28	6	–
Machinery, 1st Jan.	1,000	–	–	Freehold Factory	7,350	-	-
Office Furniture, 1st Jan.	30	–	–	Profit and Loss A/c (*Cr.*) 1st Jan.	584	5	6
				Reserve Fund A/c	2,350	–	–
				Interest on Mortgage, &c.	155	15	2

	£	s.	d.		£	s.	d.
Bank	21	13	–	Rates, Taxes, and Insurance	317	1	2
Creditors	1,142	5	9	Additions to Plant during year	386	2	9
Discount Received	314	6	11	Repairs	52	12	2
,, Allowed	257	16	11	Horse-keep	57	1	5
Bad Debts	12	4	–	Commission, Travellers'.	279	2	–
Wages	4,126	7	8	Cottage Rent (*Cr.*)	25	15	10
Travelling Expenses	255	18	–	Debtors	2,569	7	7
Stamps and Parcels Post	114	–	–	Bills Receivable (Bad, write off)	5	–	–
Carriage Outwards	319	13	11	Cash	52	7	1
Trade Expenses	280	11	6				
Fuel	40	17	8				
Sales	15,637	6	7				
Purchases	8,090	11	11				

The additions to Plant, £386 2s. 9d., consist of Machinery, £187 14s. 3d. Shafting, £117 1s. 2d.; Trade Fixtures, £40 9s. 10d.; New Horse, £40 17s. 6d.

Stock, 31st December, is £3,650 9s. 6d.

Write off Depreciation—

Freehold, £50; Machinery, 10%; Engine, Boiler, and Shafting, 12½%; Trade Fixtures, 10%; Office Furniture, 5%; Horse and Van, 20%.

The additions during the year to be depreciated for six months.

Allow for Discount, 2½% on Creditors; 3¾% on good Debtors; and provide for Bad Debts, £100.

Rates and Insurance prepaid, £78.

During the year the company have manufactured Stationery goods, £123 9s., for their own use in the office, and they have a Stock of £25 on hand at 31st December.

The Prepaid Calls, £48, are entitled to interest 5% per annum (owing for current year).

The Manager is to have a bonus of 5% on the net profit.

The Vendors' Shares take one-fourth of any profit earned in excess of 10% on the Ordinary Capital called up.

Prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December, assuming any other necessary figures. (*West Riding of Yorkshire.*)

20. The Utopia Motor Works, Ltd., was registered and commenced business on 1st February, with a Nominal Capital of £200,000, divided into 5,000 Preference Shares of £10 each, and 150,000 Ordinary Shares of £1 each. Of the latter, 32,000 were allotted as fully paid to the vendors. The public subscribed for 4,500 Preference Shares, the whole of which were called up and paid for, and 22,640 Ordinary Shares on which 15s. per share had been called up before 31st January, when the Ledger Balances, in addition to the balances representing the above transactions, were as follows—

	£		£
Loans from Sundry Persons	930	Goodwill	22,000
Plant (including additions during the year, £723)	36,803	Sundry Trade Debtors	8,700
Repairs Equalization Provision	2,648	Bills Payable	11,429
Sales	107,866	Calls in Arrear (Ordinary Shares)	806
Rates, Taxes, Gas, Water, and Insurance (including Rates for one year to 31st March next, £126; and Insurance for one year to 31st March next, £240)	872	Sundry Trade Creditors	18,176
Stock (1st Feb.)	14,685	Preliminary Expenses	537
Bank Loan	3,400	Purchases (including Carriage)	57,833
		Wages (Manufacturing)	53,129
		Salaries and Commission	1,263
		Directors' Fees	2,000
		Transfer Fees	17
		Bad Debts	1,106
		Repairs	2,182

	£		£
Freehold Land and Buildings .	26,782	Interest on Loans	161
Loose Tools	8,001	Profit and Loss A/c: Credit balance brought forward, 1st February . . .	37
Bad Debt Provision as on 1st February	807	Cash at Bank and in hand .	37
Advertising	2,190		
Office Expenses . . .	203		

You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st January, and a Balance Sheet as on that date, from the above balances, after making the following adjustments—

(*a*) Provide for Interest on Loans accrued to 31st January, £26.

(*b*) Allow for the proportion of Rates and Insurance paid in advance.

(*c*) The Stock on hand on 31st January was valued at £19,822.

(*d*) The Loose Tools on hand on 31st January were valued at £7,285.

(*e*) The directors decided (1) that two-thirds of the expenditure on advertising was to be carried forward in suspense; (2) that the whole of the expenditure on repairs was to be charged against the Repairs Provision; (3) that the Provision for Bad Debts was to be fixed at 4% on the value of the Trade Debtors; (4) that 5% depreciation was to be written off the value of the Plant as on 1st February; and (5) that £361 was to be written off for depreciation of Buildings. Assume any other necessary figures. (*R.S.A.*)

21. The Engine & Motor Co., Ltd., has a nominal capital of £100,000, divided into 75,000 Ordinary Shares of £1 each and 2,500 6% Cumulative Preference Shares of £10 each.

The books of the company were balanced on 31st March, on which date a Trial Balance, containing the following balances, was extracted from the books—

	£		£
Freehold Premises . .	12,675	Purchases Returns . .	1,675
Plant and Machinery . .	11,595	Sundry Creditors . . .	12,805
Ordinary Share Capital (50,000 shares, fully called) . .	50,000	Bills Payable . . .	8,765
Calls in Arrear . . .	2,000	Manufacturing Wages . .	25,595
Preference Share Capital (2,500 shares, fully paid) .	25,000	Repairs and Renewals of Plant	1,245
Stock-in-Trade, 1st April .	14,665	Coal	2,765
Office Furniture . . .	545	Gas and Water	475
Loose Tools, 1st April . .	3,125	Rates, Taxes, and Insurance .	865
Patterns	3,155	Office Salaries . . .	750
Patents	1,535	Trade Expenses . . .	2,165
Profit and Loss A/c (Credit Balance, 1st April) . .	1,545	Bad Debts written off . .	615
Goodwill A/c	3,000	Provision for Bad Debts, 1st April	1,165
Sundry Debtors	31,215	Directors' Fees . . .	300
Cash at Bank, Current A/c .	985	Carriage	4,155
,, ,, Deposit A/c .	10,000	Interest on Bank Deposit A/c .	45
,, in hand	45	Audit Fee and Legal Expenses	205
Sales	107,015	General Expenses . . .	945
,, Returns	975	Discounts allowed to Debtors.	1,235
Purchases	71,245	,, received from Crs. .	875
		Preliminary Expenses . .	350
		Travelling Expenses . .	465

Before closing the books, the following adjustments are necessary—

(1) A portion of the premises has been sublet, since 1st January, at £80 per annum, and the Rent due to date has not been paid or passed through the books.

(2) The Insurance unexpired amounts to £30.

(3) Eleven months only of the Office Salaries have been paid. One month's Salaries were owing on 31st March.

(4) Make the Provision for Bad Debts equal to an amount representing 5% on the Sundry Debtors (excluding Sundry Debtors for rent).

(5) Write off the whole of the Preliminary Expenses.

(6) Write off the following depreciations—

(a) Plant and Machinery, 10%; (b) Office Furniture, 10%;
(c) Patterns, 15%; (d) Patents, 20%.

The Stock-in-Trade on 31st March was valued at £23,995 and the Loose Tools at £2,730. Assume any other necessary figures.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st March, and a Balance Sheet as on that date.

What dividend, if any, would you recommend the directors to propose, taking into consideration the fact that the dividend on the Preference Shares for the previous year ended 31st March. has not been paid?

(*London Chamber of Commerce.*)

22. On 22nd January, 1946, A owed B £500 for goods supplied, and, being unable to pay, assigned to him a life policy (with profits) for that amount. B accepted this policy in full settlement of the debt and undertook to pay future premiums.

The annual premium under the policy was £18 payable on 1st July and the surrender value of the policy was £270 at the date of assignment, £285 on 31st December, 1946, and £301 on 31st December, 1947.

A died on 15th January, 1948, and the policy money amounting to £530 was duly received.

Show, by means of Journal entries, how you consider B should record this transaction in his books for the years to 31st December, 1946, to 31st December, 1947, and to 31st December, 1948.

23. The accounts of a motor manufacturing company showed the following for the year ended 31st December, 19..—

	£
Materials used	325,682
Direct Wages	367,265
Factory Overhead Expenses	73,453
Establishment and General Expenses	45,984

You are required to prepare a statement showing—

(a) Factory cost.

(b) Total cost.

(c) The percentage that the establishment and general expenses bear to the factory cost.

(d) The price at which a motor car should be sold in order to yield a profit of 25 per cent, assuming the value of material used in the manufacture of a car to be £104 and the amount of wages involved to be £80. (*R.S.A.*)

24. Sigma, Ltd., is a company engaged in the wholesale trade. Its Balance Sheet as on 31st March, 1948, was as follows—

BALANCE SHEET, 31*st March*, 1948

	£		£
Issued Capital—		Goodwill	25,000
50,000 6 per cent Cumulative Preference Shares of £1 each	50,000	Vans and Cars	8,550
160,000 Ordinary Shares of 10s. each	80,000	Fixtures and Fittings	6,740
Sundry Creditors	17,351	Stock	33,061
Bank Overdraft	13,320	Investment	15,000
		Debtors, *less* Provision	37,685
		Cash	72
		Profit and Loss Account	34,563
	£160,671		£160,671

The preference dividend was in arrear for some years, and the fixed assets were considerably over-valued, no depreciation having been written off. The following scheme of capital reduction was agreed to and confirmed by the Court, being effective as from 1st April, 1948.

(*a*) The Ordinary Shares were reduced to 1s. and each ten of the reduced shares then consolidated into one new share of 10s.

(*b*) The Preference Shareholders agreed to accept in lieu of arrears of dividend one new Ordinary 10s. Share, issued as fully paid, in respect of each two Preference Shares held, and each existing Preference Share was converted into two new Ordinary Shares.

(*c*) The balance available from the above was used to write off the debit balance of the Profit and Loss Account, to write down the Vans and Cars by £5,550 and the Fixtures and Fittings by £2,240, the balance being used to write down Goodwill.

Directors and their friends then subscribed for 30,000 new 5 per cent £1 Preference Shares at par, ranking for dividend as from 1st June, 1948, four months' dividend on which was paid in October.

In addition to the balances arising from the above, the following were standing on the company's books as on 31st March, 1949.

Balances	£
Purchases	102,177
Sales	115,316
Cars purchased, 1st July, 1948	3,000
Proceeds of Sale of Old Cars (estimated book value, £350)	310
Office and Showroom Salaries	2,870
Travellers' Salaries and Commission	3,317
Rent and Rates	1,745
Trade Debtors	37,306
,, Creditors	5,360
Bad Debts Provision	119
Creditors for Expenses	108
Expenses paid in advance	93
Advertising	3,120
Discount (*Cr.*)	733
Directors' Fees	600
Dividend from Investment	900
Bank Interest (*Dr.*)	41
Legal Charges and Adult Fee	265
Sundry Trade Expenses	1,752
Cash at Bank	3,072
,, in hand	74

You are required to prepare the Company's Trading and Profit and Loss Account for the year ended 31st March, 1949, and Balance Sheet as on that date, having regard to the following instructions—

(*a*) Stock on hand on 31st March, 1949, was valued at £37,001.

(*b*) The Vans and Cars are to be depreciated at the rate of 20 per cent per annum, and the Fixtures and Fittings at 10 per cent.

(*c*) The Goodwill is to be written down to £7,500.

(*d*) Of the legal charges, the sum of £160 represents expenses in connexion with the capital reduction scheme and issue of new shares One-half of this sum is to be carried forward.

(*e*) Included in the Advertising is a figure of £45, representing the cost of catalogues not yet sent out.

(*f*) The Bad Debts Provision is to be made up to £750.

25. The partnership agreement of Davis, Edwards, and Freeman includes the following provisions—

(*a*) Each partner is to be allowed interest at 5 per cent per annum on his Capital, but not on the balance of his Current Account.

(*b*) Interest at the rate of 5 per cent per annum is to be charged on Drawings in excess of the credit balance of a partner's Current Account.

(*c*) Freeman is to receive a salary of £150 per annum, payable monthly.

(*d*) The balance of profit is to be divided: Davis 50 per cent, Edwards 30 per cent, Freeman 20 per cent.

The personal accounts of the partners as on 31st December, 1947, were as follows—

	CAPITAL ACCOUNT	CURRENT ACCOUNT (*Cr.*)
	£	£
Davis	8,000	677
Edwards	7,000	180
Freeman	2,000	243

The following sums were drawn by the partners on the last day of each month during 1948—

	£
Davis	120
Edwards	75
Freeman	45 (excluding salary)

Prior to any of the above adjustments being made, the profits of the year ended 31st December, 1948, amounted to £2,925. Give the partners' accounts as they would appear in the Balance Sheet as on that day.

26. On 1st January, 1945, a company purchased plant and machinery for £10,000. Its estimated life was fifteen years, and an expert's report stated that during the fifteen years the repairs and maintenance cost would be £2,250. The directors desire to charge this cost equally against each of the fifteen years. During the first four years the actual cost of repairs and maintenance was—

	£
31st December, 1945	50
,, 1946	43
,, 1947	76
,, 1948	88

Show, by means of Ledger Accounts, how the wish of the directors will be carried out during the first four years.

CHAPTER XX

BANKRUPTCY, STATEMENT OF AFFAIRS, DEFICIENCY ACCOUNT, TRUSTEE'S ACCOUNTS

BANKRUPTCY

Bankruptcy Laws and their Objects. The law that governs bankruptcy proceedings is the Bankruptcy Act, 1914, which is a consolidation of the Bankruptcy Acts, 1883 and 1890, and of the bankruptcy part of the Bankruptcy and Deeds of Arrangement Act, 1913, and which came into operation on the 1st January, 1915. A more recent Act relating to bankruptcy is the Bankruptcy (Amendment) Act, 1926. The object of bankruptcy laws is to extricate a debtor who has become hopelessly involved in financial difficulties, by distributing his estate equitably among his creditors, and releasing him from all further liability in respect of his past debts.

Courts of Bankruptcy. Proceedings must be taken in the County Court of the district in which the debtor has resided or carried on business for the longest period during the six months preceding the bankruptcy. The County Court must be one of those that have had bankruptcy jurisdiction conferred upon them. If the debtor has resided or carried on business for the longest period during these six months in the metropolitan district, or if he is resident abroad, or if his residence is unknown, then proceedings must be taken in the High Court. The Board of Trade has important powers in controlling and supervising bankruptcy proceedings. (Sections 96, 97, 98, and 99.)

Persons who may be made Bankrupt. In general, any debtor who has committed an act of bankruptcy may be made bankrupt. Exceptions to this rule, however, exist in the case of companies registered under the Companies Act, 1948 (which must be wound up), and, in certain circumstances, lunatics and foreigners. Partnerships (including limited partnerships) can be made bankrupt, and a married woman is now in the same position as if she were unmarried. A deceased debtor cannot be made bankrupt, but his estate may be administered in bankruptcy. (Sections 126, 127, and 130.)

Petition. Bankruptcy proceedings are commenced by the presentation of a petition for a Receiving Order to be made against the debtor. A petition may be made by the debtor himself, who must allege inability to pay his debts, or by one or more creditors. By Section 4 of the Act, a creditor is not entitled to present a bankruptcy petition against a debtor unless—

(*a*) The debt owing by the debtor to the petitioning creditor or, if two or

more creditors join in the petition, the aggregate amount of debts owing to the several petitioning creditors, amounts to fifty pounds; and

(b) The debt is a liquidated sum, payable either immediately or at some certain future time; and

(c) The act of bankruptcy on which the petition is grounded has occurred within three months before the presentation of the petition; and

(d) The debtor is domiciled in England, or within a year before the date of the presentation of the petition has ordinarily resided, or had a dwelling-house or place of business, in England, or (except in the case of a person domiciled in Scotland or Ireland, or a firm or partnership having its principal place of business in Scotland or Ireland) has carried on business in England, personally or by means of an agent or manager, or (except as aforesaid) is or within the said period has been a member of a firm or partnership of persons which has carried on business in England by means of a partner or partners, or an agent or manager.

If the debtor is the petitioner, the Court will make the Order at once, unless it is merely an attempt on his part to evade a committal order. If the petition is made by a creditor, a copy must be served on the debtor, and not less than eight days after such service the Court will hear the petition. It may then either make the Receiving Order or dismiss the petition as it thinks fit. Whoever presents the petition must pay the stamp duty, and make the deposit required by the Bankruptcy Rules.

Receiving Order. If the Court is satisfied as to the alleged act or acts of bankruptcy on the part of the debtor, it will forthwith make a Receiving Order against him, and this fact will be duly advertised in the *Gazette*. The effect of the Receiving Order is to constitute the Official Receiver the receiver of the debtor's property, and to stay any proceedings against the debtor by his creditors although a secured creditor may still realize or otherwise deal with his security. (Section 7.)

Statement of Affairs. This is the statement of an insolvent debtor's assets and liabilities, prepared for submission to the Official Receiver and creditors. Particulars are given, in an inner column, of all secured debts and of the securities in connexion with them. The assets available for the general creditors are estimated at their realizable value and placed on one side of the statement; the liabilities to be paid out of these assets are placed on the other side. The excess of the liabilities over the assets then shows the estimated *deficiency*. The Statement must be submitted within three days of the Receiving Order if made on the debtor's petition, or within seven days if made on a creditor's petition. It must also be prepared on the official forms. (Section 14.)

Meeting of Creditors. The creditors meet to discuss the Statement of Affairs submitted by the debtor, together with the Official Receiver's observations on it, and to consider which of the following will be most expedient. (Section 13)—

(1) To accept a composition in satisfaction of their debts.

(2) To agree to a scheme for the arrangement of the debtor's affairs.

(3) That the debtor shall be adjudged bankrupt; that a trustee be appointed to administer the estate; that a committee of inspection be appointed to assist the trustee.

In each case the consent of the Court is necessary. If either of the first two courses is approved, the Receiving Order is rescinded. In the last case the debtor is adjudged bankrupt by the Court, and notice thereof advertised in the *Gazette*. Almost without exception, a debtor against whom a Receiving Order has been made is required to undergo a public examination.

Composition. This is a legal arrangement between a debtor and his creditors, whereby each creditor agrees to accept a part of his debt in full settlement of the whole of it.

Deed of Arrangement. This is a deed embodying an arrangement arrived at between a debtor and his creditors to assign all his property to a trustee for their benefit, to compound with them, and, in certain circumstances, where the creditors obtain control over the debtor's property or business. Such a deed, if it is made for the benefit of creditors generally or, if the debtor is insolvent, for the benefit of any three or more of them, is governed by the Deeds of Arrangement Act, 1914. It enables a debtor to escape the publicity and stigma of the Bankruptcy Court; while the creditors obtain a larger dividend, as the expenses consequent on bankruptcy are avoided. Such an arrangement, however, constitutes an act of bankruptcy, and a dissentient creditor may present a bankruptcy petition against the debtor founded on the deed. Should the debtor be declared bankrupt within three months of the execution of the deed, the latter becomes void against the trustee in bankruptcy. Owing to this contingency, the trustees under such deeds generally allow three months to elapse before distributing any of the assets realized.

Committee of Inspection. This is a small number of creditors, not more than five and not less than three, appointed by the whole body of creditors to supervise the winding-up of a debtor's affairs under the trustee in bankruptcy or Official Receiver. When there is no committee of inspection, its functions are exercised by the Board of Trade.

Public Examination. The examination is held in open Court as soon as possible after the debtor has furnished his Statement of Affairs, unless the Receiving Order has been rescinded. Questions may be put to the debtor, by either the Official Receiver or the creditors, as to his conduct, his business affairs, and his property.

Discharge. When the public examination is concluded, the debtor may apply to the Court for an order of discharge. The Court has power to grant it, refuse it, or to suspend it for a time, as it thinks fit, taking into consideration all the circumstances of the case. By Section 26 (2), the Court must refuse the discharge in all cases where the bankrupt has committed any misdemeanour under the Bankruptcy Acts, or in connexion with his bankruptcy, or any felony connected with this bankruptcy (unless for special reasons the Court otherwise determines). It may also (1) refuse the discharge, (2) suspend it for not less than two years, or (3)

suspend it until a dividend of 10s. in the £ has been paid to the creditors, or (4) require the debtor, as a condition of his discharge, to consent to judgment being entered against him for the unsatisfied balance of the debts proved in the bankruptcy.

This latter only applies under certain circumstances as mentioned in the Section.

Effect of the Order of Discharge. As soon as the debtor has obtained his order of discharge, he is released from all debts provable in the bankruptcy, except—

1. Debts to the Crown.

2. Debts incurred through fraud, or through a fraudulent breach of trust.

3. Judgment debts in an action for seduction, in affiliation proceedings, or in a matrimonial cause. (Section 28.)

QUESTIONS

1. What are the laws that govern bankruptcy? What is the object of bankruptcy laws?
2. Where must bankruptcy proceedings be taken?
3. What persons and bodies may be made bankrupt? Can a joint stock company be made bankrupt?
4. Explain the terms "bankruptcy notice" and "petition." Who presents the petition, the debtor or the creditor?
5. Explain the terms "receiving order," "fraudulent conveyance," "statement of affairs," "composition," "deed of arrangement."
6. What three courses are open to a meeting of creditors?
7. What is meant by the terms "committee of inspection," "bankrupt's public examination?"
8. What is meant by the "discharge" of a bankrupt? What are the conditions governing it?
9. From what debts does a bankrupt's discharge (*a*) release him, (*b*) not release him?

Undischarged Bankrupt. This is an insolvent debtor who has not succeeded in obtaining his discharge. By Section 155—

Where an undischarged bankrupt—

(*a*) Either alone or jointly with any other person obtains credit to the extent of ten pounds or upwards from any person without informing that person that he is an undischarged bankrupt; or

(*b*) Engages in any trade or business under a name other than that under which he was adjudicated bankrupt without disclosing to all persons with whom he enters into any business transaction the name under which he was adjudged bankrupt;

he shall be guilty of a misdemeanour.

The maximum penalty, under Section 164, is two years' imprisonment.

Annulment of Adjudication. The Court has power to annul any Receiving Order that has been made on improper grounds. Where a bankrupt subsequently makes a satisfactory arrangement with his creditors, or afterwards pays his debts in full, the Court may annul the bankruptcy. If this happens, the debtor is restored to his original position before the bankruptcy proceedings.

Joint and Separate Estates. By Section 33 (6) it is enacted as follows—

In the case of partners, the joint estate shall be applicable in the first instance in payment of their joint debts, and the separate estate of each partner shall be applicable in the first instance in payment of his separate debts. If there is a surplus of the separate estates, it shall be dealt with as part of the joint estate. If there is a surplus of the joint estate, it shall be dealt with as part of the respective separate estates in proportion to the right and interest of each partner in the joint estate.

Small Bankruptcies. By Section 129, it is enacted—

Where a petition is presented by or against a debtor, if the Court is satisfied by affidavit or otherwise, or the Official Receiver reports to the Court that the property of the debtor is not likely to exceed in value three hundred pounds, the Court may make an order that the debtor's estate be administered in a summary manner, and thereupon the provisions of this Act shall be subject to the following modifications—

(i) If the debtor is adjudged bankrupt, the Official Receiver shall be the trustee in the bankruptcy;

(ii) There shall be no committee of inspection, but the Official Receiver may do, with the permission of the Board of Trade, all things which may be done by the trustee with the permission of the committee of inspection;

(iii) Such other modifications may be made in the provisions of this Act as may be prescribed by general rules with the view of saving expense and simplifying procedure; but nothing in this section shall permit the modification of the provisions of this Act relating to the examination or discharge of the debtor.

Provided that the creditors may at any time, by special resolution, resolve that some person other than the Official Receiver be appointed trustee in the bankruptcy, and thereupon the bankruptcy shall proceed as if an order for summary administration had not been made.

Administration Order. In small cases of insolvency, where the total liabilities do not exceed £50, bankruptcy proceedings are not possible, and the Court is empowered to make an Administration Order, and compel the debtor to pay the whole or a portion of his debts either at once, or by stated instalments, out of his earnings. (B.A. 1883, Section 122, which is not repealed by the 1914 Act.)

Keeping Books. Unless a debtor can show his liabilities do not exceed £500 on the occasion of his first bankruptcy (subsequent bankruptcies £100), or the omission was honest and excusable, failure to keep books in certain circumstances amounts to misdemeanour. (Bankruptcy (Amendment) Act, 1926.)

STATEMENT OF AFFAIRS

Official Forms. On pages 869 to 875 will be found reduced facsimiles of the prescribed forms, Lists A to K, List L, and Front Sheet (or Statement). Each list has to be signed by the debtor and dated, thus—

Signature..

Dated.. ....19....

The details may assume somewhat formidable proportions, but the principle involved is extremely simple, and once the elementary rules are thoroughly assimilated, no difficulty should be experienced in the working of examination problems on this subject. The procedure is as follows—

(1) A rough statement should be prepared with assets on the right-hand side and liabilities on the left, in ordinary Balance Sheet form.

(2) Each item must appear on the *same* side in the Statement of Affairs or Deficiency Account as it appears in the rough Balance Sheet.

The estimated value of each asset will appear on the right-hand side of the Statement of Affairs.

The estimated amount of each liability will appear on the left-hand side of the Statement of Affairs.

The estimated loss (the excess of book value over estimated realizable value of an asset, or the increase in the amount of liability over the book value) will appear on the right-hand side of the Deficiency Account.

The estimated gain (the excess of estimated realizable value over the book value of an asset, or the decrease in the amount of liability over the book value) will appear on the left-hand side of the Deficiency Account.

(3) Any item not in the rough Balance Sheet must appear both in the Statement of Affairs and in the Deficiency Account, but on reverse sides; in other words, there must be double entry therefor.

(4) The Capital Account must be accounted for in the Deficiency Account on the same side as it appears in the Balance Sheet. Certain adjustments are required in connexion with the Capital Account, as will be noticed presently, but the rule herein will, nevertheless, be followed.

(5) The balance of the Statement of Affairs and Deficiency Account will be equal and closed by a cross transfer.

These rules may be summarized—

(1) Every item in the Balance Sheet must be accounted for directly or indirectly on the corresponding side of the Statement of Affairs or the Deficiency Account.

(2) Any item not in the Balance Sheet must directly or indirectly appear both in the Statement of Affairs on the one side and in the Deficiency Account on the opposite side.

List "A," Unsecured Creditors. On this list appear the names of all cash and trade creditors who have merely a claim upon the general assets of the estate. Creditors on Promissory Notes and Bills Payable are unsecured creditors, these documents not being documents of title. The balances of debts that exceed the preferential limit (rent, wages, salaries, etc., as per Lists F and

In the High Court of Justice

IN BANKRUPTCY

No. of 19

Re

N.B.—You are required to fill up carefully and accurately this sheet, and such of the several sheets, A, B, C, D, E, F, G, H, I, J, and K as are applicable showing the state of your affairs on the day on which the Receiving Order was made against you, viz.—the day of 19.

Such sheets when filled up will constitute your statement of affairs and must be verified by oath or declaration.

STATEMENT OF AFFAIRS

At 19 , date of Receiving Order.

Gross Liabilities	Liabilities (as stated and estimated by Debtor)		Expected to Rank	Assets (as stated and estimated by Debtor)		Estimated to produce
£ s. d.			£ s. d.			£ s. d.
	Unsecured creditors as per list (A)	£ s. d.		Property as per list (H) viz.—		
	Creditors fully secured as per list (B) . . .			(*a*) Cash at bankers . . .		
	Estimated value of securities			(*b*) Cash in hand . . .		
	Surplus			(*c*) Cash deposited with Solicitor for costs of petition . .		
	Less amount thereof carried to sheet (C) . . .			(*d*) Stock-in-Trade (cost £)		
	Balance thereof to contra £			(*e*) Machinery		
	Creditors partly secured as per list (C) . . .			(*f*) Trade Fixtures, Fittings, Utensils, etc.		
	Less estimated value of securities . . .			(*g*) Farming Stock . . .		
	Liabilities on Bills discounted other than Debtor's own acceptances for value as per list (D), viz.—			(*h*) Growing Crops and Tenant Rights		
	On accommodation bills as Drawer, Acceptor, or Endorser . . £			(*i*) Furniture . . .		
	On other bills as Drawer or Endorser . . . £			(*j*) Life Policies . . .		
	Of which it is expected will rank against the estate for dividend			(*k*) Stocks and Shares. . .		
	Contingent or other liabilities as per list (E) . £			(*l*) Reversionary or other Interests under Wills . . .		
	Of which it is expected will rank against the estate for dividend			(*m*) Other Property, viz.-		
		£ s. d.		Total as per list (H) .		
	Creditors for rent, etc., recoverable by distress as per list (F) . . .			Book debts, as per list (I), viz.—	£ s. d.	
	Creditors for rates, taxes, wages, etc., payable in full as per list (G) . .			Good		
	Sheriff's charges payable under Sect. 41 of the Bankruptcy Act, 1914, estimated at . . .			Doubtful		
	£			Bad		
	Deducted contra . £			Estimated to produce . . .		
	Surplus explained in statement (K)			Bills of exchange or other similar securities as per list (J) . . . . £		
			£	Estimated to produce . . .		
				Surplus from securities in the hands of creditors fully secured (per contra)		
						£
				Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's Charges, etc. (per contra). . . .		
						£
				Deficiency explained in statement (K)		
						£

I of in the County of make oath and say that the above statement and the several lists hereunto annexed, marked A, B, C, D, E, F, G, H, I, J, and K, are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at
in the County of
this day of 19 , } (Signature)
Before me

LIST "A." UNSECURED CREDITORS

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No.	Name	Address and Occupation	Amount of Debt	Date when contracted		Consideration
				Month	Year	

NOTES.—(1) When there is a contra account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

Total amount of claim . . . £ : :
Less contra account . . . £ : :
£ : :

No such set-off should be included in sheet "I."

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address of such Creditor.

LIST "B." CREDITORS FULLY SECURED

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when contracted		Consideration	Particulars of Security	Date when given	Estimated value of Security	Estimated Surplus from Security
				Month	Year					

LIST "C." CREDITORS PARTLY SECURED

No.	Name of Creditor	Address and Occupation	Amount of Debt	Date when contracted		Consideration	Particulars of Security	Month and Year when given	Estimated value of Security	Balance of Debt Unsecured
				Month	Year					

LIST "D." LIABILITIES OF DEBTOR ON BILLS DISCOUNTED OTHER THAN HIS OWN ACCEPTANCES FOR VALUE

No.	Acceptor's Name, Address, and Occupation	Whether liable as Drawer or Endorser	Date when Due	Amoun		Holder's Name, Address, and Occupation (if known)	Amount expected to rank against Estate for Dividend
				Accommodation Bills	Other Bills		

LIST "E." CONTINGENT OR OTHER LIABILITIES

Full particulars of all Liabilities not otherwise Scheduled to be given here.

No.	Name of Creditor or Claimant	Address and Occupation	Amount of Liability or Claim	Date when Liability incurred		Nature of Liability	Amount expected to rank for Dividend
				Month	Year		

LIST "F." CREDITORS FOR RENT, ETC., RECOVERABLE BY DISTRESS

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which claim accrued due	Date when due	Amount of Claim	Amount Recoverable by Distress	Difference ranking for Dividend (to be carried to List A)

LIST "G." PREFERENTIAL CREDITORS FOR RATES, TAXES, WAGES, ETC.

No.	Name of Creditor	Address and Occupation	Nature of Claim	Period during which Claim accrued due	Date when due	Amount of Claim	Amount payable in full	Difference ranking for Dividend (to be carried to List A)

LIST "H." PROPERTY

Full particulars of every description of property in possession and in reversion as defined by section 167 of the Bankruptcy Act, 1914, not included in any other list, are to be set forth in this list.

Full Statement and Nature of Property	Estimated to Produce
(a) Cash at Banker	
(b) Cash in hand	
(c) Cash deposited with Solicitor for Costs of Petition	
(d) Stock-in-Trade at (cost £)	
(e) Machinery at	
(f) Trade Fixtures, Fittings, Utensils, etc., at	
(g) Farming Stock at.	
(h) Growing Crops and Tenant Right at	
(i) Household Furniture and Effects at	
(j) Life Policies	
(k) Stocks and Shares	
(l) Reversionary or other Interests under Wills, etc.	
(m) Other Property (state particulars), viz.–	

LIST "I." DEBTS DUE TO THE ESTATE

No.	Name of Debtor	Residence and Occupation	Amount of Debt			Folio of Ledger or other Book where particulars to be found	When contracted		Estimated to Produce	Particulars of any Securities held for Debt
			Good	Doubtful	Bad		Month	Year		

Note.—If any debtor to the estate is also a creditor, *but for a less amount than his indebtedness*, the gross amount due to the estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

	£	*s.*	*d.*
Due to estate . . .			
Less contra account . . .			

No such claim should be included in sheet "A."

LIST "J." BILLS OF EXCHANGE, PROMISSORY NOTES, ETC., AVAILABLE AS ASSETS

No.	Name of Acceptor of Bill or Note	Address, etc.	Amount of Bill or Note	Date when due	Estimated to Produce	Particulars of any Property held as Security for Payment of Bill or Note

LIST "K." DEFICIENCY ACCOUNT

Excess of Assets over Liabilities on the[1] .... day of .... 19... (if any)			Excess of Liabilities over Assets on the[1] .... day of .... 19... (if any)		
Net profit (if any) arising from carrying on business from the[1] ...... day of .... 19..., to date of Receiving Order, after deducting usual Trade Expenses			Net loss (if any) arising from carrying on business from the[1] ...... day of .... 19..., to date of Receiving Order, after deducting from Profits usual Trade Expenses		
Income or profit from other sources (if any) since the[1] .... day of .... 19....			Bad Debts (if any) as per Schedule "I"[2]		
			Depreciation of Machinery		
			Depreciation of Trade Fixtures, Fittings, etc.		
			Expenses incurred since the[1] .... day of .... 19..., other than usual Trade Expenses, viz.: Household and Personal Expenses of self and[3]		
			Other losses and expenses (if any)[4]–		
			Surplus as per Statement of Affairs (if any)		
Total amount to be accounted for[5]			Total amount accounted for[5]		

NOTES.—[1] This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.
[2] This Schedule must show when debts were contracted.
[3] Add "Wife and Children" (if any), stating number of latter.
[4] Here add particulars of other expenses or losses (if any), including liabilities (if any) for which no consideration received.
[5] These figures should agree.

LIST "L"

(In substitution for such of the Sheets named "A–J" as will have to be returned blank.)

LIST	PARTICULARS AS PER FRONT SHEET	DEBTOR'S REMARKS
A	Unsecured Creditors	
B	Creditors fully secured	
	etc.	

G) are also shown on this list. On the printed form will be found notes respecting the treatment of contra accounts and the particulars required of any bills of exchange held by creditors.

List "B," Fully Secured Creditors. On this list appear the names of creditors who hold a covering security for their debts, such as a mortgage, charge, or lien upon any property of the debtor. The holder of an absolute Bill of Sale is also a secured creditor as regards the chattels mentioned therein. Goods sent on approval, or on sale or return, remain the property of the owner unless they are in the order and disposition of the debtor (Sec. 38 (2) (*c*)), and do not form part of the bankrupt's estate. A banker may be also a secured creditor in respect of an overdraft, inasmuch as he has a lien on the securities in his possession, unless they have been deposited with him merely for safe custody. A creditor may realize his security and prove for the balance of his debt (if any), or he may surrender his security and prove for the whole of the debt. Should, however, the security in the creditor's possession realize more than the amount of the debt, the creditor must hand over the balance for the benefit of the general creditors. Any estimated surplus from securities in the hands of fully secured creditors must be shown on the assets side of the Statement of Affairs. With mortgage securities, interest will be payable up to date of repayment; for a mortgage is not a first charge in respect of principal and a second charge in respect of interest, but a joint charge in respect of both. Where there are first, second, or third charges on the same property in respect of different debts, the surplus from the first debt will be carried forward to the second, and so on. It should be noted that where the security does not belong to the debtor himself the creditor proves for the full amount.

List "C," Creditors Partly Secured. This list contains the names of creditors who have a charge on some part of the debtor's property which, when realized, will pay off only a portion of the debt, the balance of which must, therefore, rank against the estate for dividend. On the Statement of Affairs, the value of the security is deducted from the amount of the debt and only the balance extended.

List "D," Liabilities of Debtor on Bills Discounted Other than his own Acceptances for Value. The debtor's own acceptances for value, i.e. his ordinary Bills Payable, will be included in List "A." On List "D" the debtor must furnish particulars of all unmatured bills of exchange to which he is a party as either drawer or endorser. The *acceptor* of a bill is, of course, the person primarily liable for payment, yet, if he makes default, the liability attaches to every endorser and also to the drawer. All unmatured Bills Receivable discounted with bankers or bill brokers,

or endorsed on to creditors, must, therefore, be entered on this list; but only those that the acceptor is expected to dishonour will be shown as liabilities of the estate *ranking for dividend*, though the *total* will be shown in the "Gross Liabilities" column.

Accommodation Bills must also be shown on this List, but in a separate column. On these bills the debtor may be liable not only as drawer or endorser but also as accommodation *acceptor*. He is not liable to the drawer unless he has shared the proceeds, but he is liable to any third party who is a holder for value. Where the debtor is the acceptor, such bills should be extended as liabilities of the estate. Where, however, he is liable merely as drawer or endorser, only those bills expected to be dishonoured should be shown as ranking against the estate for dividend.

List "E," Contingent or Other Liabilities. On this list must be entered all liabilities as surety or guarantee for others, the balance due on shares not fully called up, liabilities in respect of any uncompleted contracts or a repairing lease, etc., and sums due to deferred creditors.

Postponed or Deferred Creditors. Certain of the creditors entered on List "E" are called postponed or deferred creditors, because their claims are not considered unless and until all the other creditors have been paid in full. These are—

(1) Loans for business purposes from the debtor's spouse where the debtor is a sole trader. If the husband is a partner in a firm, and the wife has lent money to the firm, she can claim as an ordinary creditor. (Section 36.)

(2) Loans for business purposes at a rate of interest varying with the profits.

(3) Amount due to seller of the goodwill of a business in consideration of a share of the profits.

The last two are governed by the Partnership Act, 1890, Section 3.

These debts are not in any way distinguished on the Statement of Affairs as the question of postponement will arise when proofs of debt are dealt with for voting and dividend purposes.

List "F," Creditors for Rent, etc., Recoverable by Distress. If the landlord distrains within three months before the date of the Receiving Order, he can be called upon to pay the preferential creditors out of the proceeds, becoming a preferential creditor himself for any loss he thereby sustains. (Section 33 (4).) Should he distrain after the commencement of the bankruptcy, he is entitled to only *six months'* rent due before the date of the Adjudication Order, the balance ranking for dividend as an Unsecured Creditor. (Section 35.) Gas, water, and electric light corporations often have power of distraint in respect of their

particular charges, and would, in such cases, also appear on this list.

List "G," Preferential Creditors for Rates, Taxes, and Wages. By Section 33 (1) of the Bankruptcy Act, 1914, and other Acts, certain classes of preferential creditors rank before others and are, in consequence, known as pre-preferential creditors. The following is a list of these debts—

Pre-preferential

1. Funds belonging to a Friendly Society or Trustee Savings Bank, which are in the hands of the debtor as an officer of the society.
2. The proportion of an articled clerk's premium, as the trustee shall decide, where the employer becomes bankrupt, and the trustee does not transfer the Articles to some other person.
3. Reasonable funeral and testamentary expenses in the case of a deceased insolvent debtor.
4. The expenses properly incurred by the trustee under a deed of arrangement which was avoided by the subsequent bankruptcy.

Preferential

1. Assessed rates for the twelve months preceding the receiving order.
2. Assessed taxes up to the 5th April preceding the receiving order, not exceeding one year. The Crown is not preferential in respect of debts arising in the course of trading. The Inland Revenue is preferential for one year only **prior** to the making of the receiving order. Where several years are outstanding the Revenue may choose the largest, the remaining years being included in the Unsecured Creditors.
3. Wages and salaries of a clerk for four months, not exceeding £200.
4. Wages of workmen and labourers for four months, not exceeding £200.
5. Where any labourer in husbandry has contracted for wages in a lump sum, he has priority for the whole or a part of such sum, as the Court may decide to be due, proportionate to the time of service expired.
6. All contributions due by the employer under the National Insurance Acts during the twelve months preceding the receiving order.

The mere fact of obtaining judgment or a garnishee order does not enable the creditor to rank preferentially.

List "H," Property. On this list must be entered all the debtor's belongings in the shape of goods, money, real and personal property wherever situate. The printed list sets out what details are required. Only those assets should be included here which are absolutely unfettered. Where assets are pledged or mortgaged as security for debts or loans, the assets appear under such debt or loan as "Value of Security" on the liabilities side, and *not* on the assets side. The surrender value of the life insurance policy (if any) must be shown.

Under "Other Property" are included reversionary interests, leases, stocks and shares, jewellery, and, in the case of a partnership bankruptcy, the surplus (if any) from the partners' separate estates.

Property Retained by Bankrupt. By Section 38, the property

of the bankrupt divisible amongst his creditors does not comprise the following—

(1) Property held by the bankrupt on trust for any other person.

(2) The tools (if any) of his trade, and the necessary wearing apparel and bedding of himself, his wife and children, to a value inclusive of tools and apparel and bedding, not exceeding £20 in the whole.

List "I," Debts due to the Estate. As can be seen from the printed form, the debts have to be classified into good, doubtful, and bad. The doubtful debts have to be estimated, and the estimated value treated as an asset in the Statement of Affairs. The prescribed form contains a note respecting the treatment of contra accounts (if any)

List "J," Bills of Exchange, Promissory Notes, etc., Available as Assets. On this list must be furnished particulars of all bills of exchange, promissory notes, etc., held by the debtor. Such documents, are, of course, handed over to the Official Receiver immediately the Receiving Order is made.

List "L," in Substitution for such of the Sheets Named A-J as will have to be Returned Blank. The object of this list is to avoid, in the case of small bankruptcies, having to file a number of blank forms. The debtor fills in the letter of each form, and writes the word "nil" opposite to the forms that he returns blank.

Front Sheet. The totals of the various lists have to be transferred to the "Front Sheet" or summary. The assets are entered as on the lists "H," "I," and "J," "H" being copied in detail; then follows the surplus (if any) from securities in the hands of fully-secured creditors; and the addition of these four gives the total of the *gross* assets. The liabilities are entered from the lists "A" to "E," and the proper amounts are extended into the column headed "Expected to Rank." The liabilities as on lists "F" and "G," and the sheriff's charges (if any) are then entered, but only in the inner column, added up, and the total deducted from the total of the gross assets on the opposite side. The balance gives the total of the *net* assets, and this total subtracted from the total of the liabilities ranking for dividend shows the estimated deficiency, which must agree with the deficiency shown in list "K."

Example 1. From the following particulars draw up the Statement of Affairs to be furnished to the creditors of A. O. Lovejoy—

28th September, 19..	£	s.	d.
Unsecured Creditors—			
Bills Payable	1,856	14	11
Household Debts	128	16	10
Trade Accounts	9,037	5	9
Fully-secured Creditors (holding security estimated to produce £9,000)	8,000	-	-

(*Continued on next page*)

	£	s.	d.
Liability on Bills Discounted, List D (£53 10s. 4d. of which is expected to rank)	557	14	8
Creditors for distrainable Rent	100	–	–
Preferential Creditors for Rates, Taxes, Wages, etc.	122	14	6
Cash in Hand	10	12	6
,, at Bank	60	5	10
Stock-in-Trade (estimated to produce £2,500)	4,060	18	2
Furniture and Fixtures (estimated to produce £600)	1,080	12	9
Household Furniture and Effects (estimated to realize £220)	450	10	6
Book Debts—			
Good	2,678	15	4
Doubtful, £526 11s. 6d. expected to produce half; Bad, £487 14s. 10d.			
Bills of Exchange, good	237	18	3

(See next page).

Example 2. From the following particulars prepare Statement of Affairs of Messrs. Rupert and Larkin as at 30th June—

Plant and Machinery, £30,000; expected to realize £25,000. Stock-in-Trade, £12,000; expected to produce £7,000. Patents, £5,000; estimated to realize £3,000. Furniture and Fixtures, £625 11s. 6d.; expected to produce £400. Cash in hand, £10 11s. 6d. Cash at Bank, £120 16s. 8d. Bills Receivable, £2,514 10s. 6d., all good. Bills Payable, £4,035 8s. 10d. Loans, £20,000, having a first charge on the Plant and Machinery. Liability for Damages awarded to injured workman under the Workmen's Compensation Act, 1925, £100, not covered by insurance. Creditors, £33,406 15s., £8,000 of which has a second charge on the Plant and Machinery. Rent owing 1 year, £620. Rates and Taxes, 1 year, £85. Preferential Wages and Salaries, £80 16s. 6d. Book Debts, £10,816 14s. 3d.; good, £7,068 10s. 6d., subject to 5 per cent cash discount; doubtful, £2,020 16s. 8d., expected to produce 25 per cent; and the remainder bad. Liabilities on Bills Discounted, £1,856 11s. 4d., of which £104 18s. 8d. is expected to rank. L. Larkin's private estate shows an expected surplus of £60, and R. Rupert's a deficiency of £146.

How much in the £ does the estate show? (See page 882.)

QUESTIONS

1. Explain the term "undischarged bankrupt." What disabilities attach to such a person?
2. Can a bankruptcy be afterwards annulled? How are joint and separate estates of partners to be treated?
3. How are small bankruptcies dealt with? What is an "administration order"?
4. Give short particulars of the creditors who have to be entered on Lists A, B, and C respectively.
5. Give short particulars of the creditors who have to be entered on Lists D, E, and F respectively.
6. What is meant by "postponed" or "deferred" creditors? Give examples.
7. What are "preferential" creditors, and on what list are their claims entered?
8. What property is entered on List H? What property is retained by the bankrupt?
9. What debts are entered on Lists I and J, and how have they to be classified?
10. What is the purpose of List L, and "Front Sheet"? What is the procedure with the latter?

STATEMENT OF AFFAIRS

OF A. O. LOVEJOY, 28TH SEPTEMBER, 19..

Gross Liabilities £ s. d.	Liabilities	£ s. d.	Expected to Rank £ s. d.
11,022 17 6	Unsecured Creditors (A) .		11,022 17 6
8,000 - -	Fully Secured Creditors (B) .	8,000 - -	
	Value of Security . .	9,000 - -	
	Surplus to contra . .	1,000 - -	
557 14 8	Liabilities on Bills Discounted (D) . . .	557 14 8	53 10 4
100 - -	Creditors for Rent (F) . .	100 - -	
122 14 6	Preferential Creditors for Rates, Taxes, Wages, etc. (G) .	122 14 6	
	Deducted in full per contra .	222 14 6	
£19,803 6 8			£11,076 7 10

Assets	£ s. d.	Expected to Produce £ s. d.
Property (H)—		
Cash in hand		10 12 6
Cash at Bank		60 5 10
Stock-in-Trade	4,060 18 2	2,500 - -
Furniture and Fixtures	1,080 12 9	600 - -
Household Furniture and Effects . .	450 10 6	220 - -
Total .		3,390 18 4
Book Debts (I)—		
Good		2,678 15 4
Doubtful	526 11 6	
Bad	487 14 10	
	1,014 6 4	263 5 9
Bills of Exchange (J) . . .		237 18 3
Surplus from Securities in hands of Fully Secured Creditors as per contra .		1,000 - -
Total Assets. .		7,570 17 8
Deduct Creditors for Rent and Preferential Creditors, as per contra . . .		222 14 6
Net Assets		7,348 3 2
Deficiency		3,728 4 8
		£11,076 7 10

STATEMENT OF AFFAIRS

OF RUPERT AND LARKIN. 30TH JUNE, 19. .

Gross Liabilities	Liabilities		Expected to Rank
£ s. d.		£ s. d.	£ s. d.
29,752 3 10	Unsecured Creditors (A)[1] .		29,752 3 10
20,000 - -	Fully Secured Creditors (B) .	20,000 - -	
	Value of Security. . .	25,000 - -	
	Surplus to List "C" . .	5,000 - -	
8,000 - -	Partly Secured Creditors (C) .	8,000 - -	
	Value of Security. . .	5,000 - -	3,000 - -
1,856 11 4	Liability on Bills Discounted (D)	1,856 11 4	104 18 8
310 - -	Creditors for Rent (F) . .	310 - -	
265 16 6	Preferential Creditors[2] for Rates, Taxes, Wages, etc. (G) .	265 16 6	
		575 16 6	
£60,184 11 8			£32,857 2 6

Assets		Expected to Produce
	£ s. d.	£ s. d.
Property (H)—		
Cash in hand		10 11 6
Cash at Bank		120 16 8
Stock-in-Trade	12,000 - -	7,000 - -
Furniture and Fixtures	625 11 6	400 - -
Patents	5,000 - -	3,000 - -
Surplus from private estate of L. Larkin .		60 - -
Total . .		10,591 8 2
Book Debts (I)—		
Good	7,068 10 6	6,715 2 -
Doubtful	2,020 16 8	
Bad	1,727 7 1	
	3,748 3 9	505 4 2
Bills of Exchange (J)—	2,514 10 6	2,514 10 6
Total Assets . .		20,326 4 10
Deduct Creditors for Rent, Rates, Taxes, Wages, etc., as per contra . . .		575 16 6
Net Assets . . .		19,750 8 4
Deficiency		13,106 14 2
		£32,857 2 6

[1] Bills Payable, £4,035 8s. 10d.; Trade Accounts, £25,406 15s.; Rent, £310.
[2] Damages to Workman, £100; Taxes, £85; Wages and Salaries, £80 16s. 6d.
Estate shows (£19,750 ÷ £32,857) 12s. in the £, subject to expenses of winding up.

Difference between a Statement of Affairs and a Balance Sheet. This is a favourite examination question, and the student should, therefore, carefully note the four principal differences—

(1) A Balance Sheet is prepared from the figures in the books and shows, on the assets side, the whole of the assets including such items as are being carried forward to be written off in subsequent years; a Statement of Affairs shows only those "free" assets that are available for the general creditors, assets mortgaged or pledged as security for debts being shown underneath the debts themselves.

(2) A Balance Sheet shows the book value of the assets; a Statement of Affairs shows their estimated realizable value as well.

(3) In a Balance Sheet, the preferential creditors are included in the total of the liabilities; in a Statement of Affairs, they are deducted from the assets.

(4) A Balance Sheet shows a trader's capital, profit or loss, and drawings; a Statement of Affairs excludes all these items.

DEFICIENCY ACCOUNT

Object and Contents. The object of this form, List "K," is to explain the deficiency as shown in the Statement of Affairs, i.e. to show by means of figures how it has been brought about. Starting from a given date—at least twelve months before the date of the Receiving Order—the initial capital (if any) should be shown on the one side, and all subsequent trading profits and any other sources of income. On the other side should be detailed trading losses, losses by bad debts, and all expenses or losses other than trade expenses, viz. household expenses of self, wife, and children; the difference between premiums paid on life policies and the surrender value of such policies; medical attendance; gambling or stock exchange losses; damages and costs in actions at law; loss through dishonoured bills or accommodation bills expected to rank; and the estimated losses on realization. The balance of this account must agree with the balance shown by the Statement of Affairs.

Adjustment of Profits and Losses. In exercises and examination work, the profits and losses are often given *after* charging interest on capital. In such cases, the profits and losses must be adjusted in order to eliminate this interest from the Deficiency Account. Thus, the profits must be *increased* and the losses *decreased* by the amount of such interest; and, in some cases, a small loss may be converted into a profit by means of this adjustment. When partners' salaries have been credited to capital, i.e. not drawn out in cash, the profits and losses must be adjusted in a similar manner, in order to avoid showing the salaries in the Deficiency Account as having increased the capital. When the partners'

salaries have been drawn out in cash, the capital account will not have been affected, and, consequently, the profits and losses will not require adjustment.

Example 1 (a). Referring to Example 1, draw up from that and the following particulars the Deficiency Account of A. O. Lovejoy—

Capital at commencement, £5,000. Trading Results: 1st year, profit, £1,678 4s. 2d.; 2nd year, loss, £869 8s. 10d.; 3rd year, loss, £660 7s. 8d. Damages and costs in unsuccessful action at law, £4,000. Drawings, 3 years @ £600 per annum.

DEFICIENCY ACCOUNT

28TH SEPTEMBER, 19..

	£	s.	d.			£	s.	d.
Capital at commencement	5,000	-	-	Trading Losses—				
Trading Profit, 1st year	1,678	4	2	2nd year	£869 8 10			
Deficiency as per Statement of Affairs	3,728	4	8	3rd year	660 7 8	1,529	16	6
				Drawings, 3 yrs. at £600 p.a.		1,800	-	-
				Bad Debts		751	-	7
				Damages and Costs in unsuccessful action at law		4,000	-	-
				Estimated Losses on Realization—				
				Stock	£1,560 18 2			
				Furniture	480 12 9			
				Household Furniture	230 10 6	2,272	1	5
				Liability on Bills discounted, expected to rank		53	10	4
£	10,406	8	10	£		10,406	8	10

Example 2 (a). Referring to Example 2, draw up from that and the following particulars the Deficiency Account of Rupert and Larkin—

Capital at commencement, £10,000. Trading Results: 1st year, profit, £1,116 10s. 8d.; 2nd year, loss, £1,887 6s. 4d.; 3rd year, profit, £587 4s. 3d.; 4th year, profit, £316 11s. 2d.; 5th year, loss, £2,872 15s. 8d. Partners' Drawings: Rupert, £900 per annum; Larkin, £500 per annum. The above profits and losses are after charging interest on capital @ £500 per annum.

DEFICIENCY ACCOUNT

30TH JUNE, 19..

		£	s.	d.			£	s.	d.
Capital at commencement		10,000	-	-	Losses by Trading—				
Profits by Trading—					2nd year	£1,387 6 4			
1st year	£1,616 10 8				5th year	2,372 15 8	3,760	2	-
3rd year	1,087 4 3				Drawings, 5 years at £1,400 p.a.		7,000	-	-
4th year	816 11 2	3,520	6	1	Bad Debts		3,242	19	7
Surplus from L. Larkin's private estate		60	-	-	Estimated Losses on Realization—				
Deficiency as per Statement of Affairs		13,106	14	2	Stock	£5,000 - -			
					Fixtures	225 11 6			
					Plant & Machy.	5,000 - -			
					Patents	2,000 - -			
					Discount on Drs.	353 8 6	12,579	-	-
					Liability on Bills discounted expected to rank		104	18	8
£		26,687	-	3	£		26,687	-	3

Firm Bankruptcy. The position dealt with so far has been confined to a sole trader. Where, however, there is a firm bankruptcy the problems are a little more complicated. It should be remembered that Statements of Affairs will be required both for the firm and for its constituent members. Subject to certain exceptions, the private creditors have recourse only to the private estate, and the partnership creditors to the firm estate, generally referred to as the joint estate. Another confusing point arises where joint property is pledged as security for a private debt of one of the partners, in which case the private creditor is not a secured creditor, because he has not obtained the property of the debtor as security, but that of the joint estate. Examples are shown to illustrate the principles involved.

Example 3. A and B are partners and the position is as follows—

BALANCE SHEETS

FIRM

Liabilities	£	*Assets*		£
Creditors	600	Stock		300
		Debtors		100
		A	£120	
		B	80	
				200
	£600			£600

A

Liabilities	£	*Assets*	£
Creditors	250	Furniture	300
Surplus	30	Sundry Assets	100
Firm	120		
	£400		£400

B

Liabilities	£	*Assets*	£
Creditors	900	Furniture	600
Firm	80	Life Policy	250
		Deficiency	130
	£980		£980

It is assumed that all assets are worth book value save that stock is estimated to realize £140. Prepare draft Statements of Affairs and Joint Deficiency Account.

STATEMENT OF AFFAIRS

JOINT

	£		£
Creditors	600	Stock	140
		Debtors	100
		Sundry Assets (A's Estate)	150
			390
		Deficiency	210
	£600		£600

A

	£		£
Creditors	250	Furniture	300
Surplus	150	Sundry Assets	100
	£400		£400

B

	£		£
Creditors	900	Furniture	600
		Life Policy	250
		Deficiency	50
	£900		£900

JOINT DEFICIENCY ACCOUNT

	£			£
A—Surplus	150	Excess of Liabilities over Assets of—		
Deficiency as per Statement of Affairs	210	A	£120	
		B	80	
				200
		Depreciation of Stock		160
	£360			£360

Each Statement of Affairs is separately compiled and each deficiency or surplus is separately ascertained. Any surplus introduced from a separate estate to the joint estate (not being in the original Balance Sheet of the firm) must have its double entry. It has already been stated that as regards creditors, each "set" proves against the particular debtor, i.e. separate against separate, joint

against joint, but it should be observed that the surplus of A, i.e. £150, is now available for the joint creditors.

Where in a partnership a partner has given security for a firm debt, the joint estate has first claim on such security: any surplus goes to the separate estate of that partner, the reverse applying when joint property is given as security to separate creditors.

Example 4. The creditors are—

	£		£
Joint	3,000	Assets . . .	1,600
A	500	,, . . .	400
B	600	,, . . .	640

The £640 asset of B has been placed as security for a loan of £500 to the firm included in the figure £3,000. The joint assets are estimated to realize £1,800. Prepare Statements of Affairs.

STATEMENTS OF AFFAIRS

JOINT

Liabilities	£	*Assets*	£
Unsecured Creditors . . .	3,000	Assets	1,800
		Deficiency	1,200
	£3,000		£3,000

A

Liabilities	£	*Assets*	£
Creditors	500	Assets	400
		Deficiency	100
	£500		£500

B

Liabilities	£	*Assets*	£
Creditors	600	Surplus from Security held by Joint Creditors . .	440
		Deficiency	160
	£600		£600

The joint creditor of £500 would get (as the other joint creditors) 12s. in the £ dividend = £300, i.e. $\frac{18}{30}$ × £500. Hence there is a shortage of £200. He recoups this from the £640 asset of B, leaving still a surplus of £440 which is now available for B's creditors.

This may be further proved as follows. The joint creditor has £640 security of B against the partnership debt £500, leaving £140 surplus. The dividend £300 received from the joint estate is now due to B's separate estate, since the £500 debt has been satisfied in full. B's estate thus receives £440 from the asset £640.

TRUSTEE'S ACCOUNTS

Trustee in Bankruptcy. This is a person elected by the creditors of a debtor who has been adjudged a bankrupt, to take over his property. The appointment is subject to the approval of the Board of Trade. The trustee's duties are to realize the debtor's estate, and distribute the proceeds, after paying the preferential claims, among the unsecured creditors.

Trustee's Cash Book. The trustee must keep a Cash Book, the prescribed form of which is as shown on the next page, also a Trading Account if he carries on business.

Trustee's Account of Receipts and Payments. The trustee must also render to the Board of Trade an account of his receipts and payments, the prescribed form of which is as shown on page 890. (Section 92.) This is audited by the Board of Trade, and an audited copy is kept for the inspection of the creditors or of the bankrupt.

Record Book. This is a book that must be kept by the trustee in bankruptcy. It contains records of the minutes of all meetings, the resolutions passed, and particulars, in order of date, as to how the estate has been administered. (Section 86.)

Bankruptcy Estates Account. This is an account kept by the Board of Trade with the Bank of England, and every trustee in bankruptcy, or under any composition or scheme of arrangement, must pay all moneys received by him into this account. He may, however, with the sanction of the Board of Trade, if the balance of cash is small, and if such procedure is to the obvious advantage of the creditors, make his payments into and out of some local bank. The account must be opened in the name of the debtor's estate, and any interest received thereon will form part of the general assets of the estate. A trustee must not pay any sums received by him as trustee into his own private banking account. If at any time he retains for more than ten days a sum exceeding £50, he is liable for interest thereon at the rate of 20 per cent per annum, and also for any expenses occasioned by his default, and may be removed from office. (Section 89.)

Power to Disclaim Onerous Property. By Section 54 (1)—

Where any part of the property of the bankrupt consists of land of any tenure burdened with onerous covenants, of shares or stock in companies, of unprofitable

TRUSTEE'S CASH BOOK

Dr. RECEIPTS — PAYMENTS

Date	Particulars	Total	Drawn from Bank	Debts Collected	Property Realized	Receipts from Securities held by Creditors	Other Receipts	Date	Particulars	Voucher Nos. (in red)	Total

PAYMENTS *Cr.*

Paid into Bank	Costs of Realization								Allowance to Debtor	Preferential Creditors (Section 33) and Rent	Payments to redeem Securities	Dividends Paid	Other Payments
	Board of Trade and Court Fees	Law Costs of Petition (including £5 stamp)	Law Costs after Receiving Order	Commission on Realization and Distribution		Charges of Auctioneer, Accountant, Shorthand Writer, &c., as taxed	Notices in *Gazette* and Local Paper	Incidental Expenses, including Possession					
				Board of Trade	Trustee								

——BANKRUPTCY ACT, 1914

In the Court of holden at No. of

In the matter of under Receiving Order dated day of 19...

Dr. **Statement,** showing position of Estate at date of application for Release of Trustee *Cr.*

	Estimated to produce per Debtor's Statement	Receipts
To Total receipts from date of Receiving Order, viz.— (See list "H")		
„ Receipts per Trading Account . . .		
„ Other Receipts		
Total		
Less—		
Deposit returned to Petitioner . . .		
Payments to redeem Securities . . .		
Costs of Execution . . .		
Payments per Trading Account . . .		
	£	
Net Realizations	£	

		Payments
By Board of Trade and Court Fees (including Stamps of £5 on petition)		
Law Costs of Petition		
Other Law Costs		
Trustees' Remuneration as fixed by the Committee of Inspection, viz.—		
per cent on £........assets realized . . .		
per cent on £..........assets distributed in dividend		
Special Manager's Charges		
Person appointed to assist Debtor under Sect. 74 of the B.A., 1914		
Auctioneer's Charges as Taxed		
Other Taxed Costs		
Costs of Possession		
Costs of Notices in *Gazette* and Local Papers . . .		
Incidental Outlay		
Total Cost of Realization	£	
Allowance to Debtor		
Creditors, viz.—		
Preferential		
Unsecured: Final Dividend now declared of....... in the £ on................ . . .		
Dividends previously declared		
The Debtor's estimate of amount expected to rank for dividend was . . . . £		
Balance		
	£	

contracts, or of any other property that is unsaleable, or not readily saleable, by reason of its binding the possessor thereof to the performance of any onerous act, or to the payment of any sum of money, the trustee, notwithstanding that he has endeavoured to sell or has taken possession of the property, or exercised any act of ownership in relation thereto, but subject to the provisions of this section, may, by writing signed by him, at any time within twelve months after the first appointment of a trustee or such extended period as may be allowed by the Court, disclaim the property.

A trustee is not, however, usually entitled to disclaim a lease except by consent of the Court.

Powers of Trustee to deal with Property. By Section 55 of the Act, it is enacted—

Subject to the provisions of this Act, the trustee may do all or any of the following things—

(1) Sell all or any part of the property of the bankrupt (including the goodwill of the business, if any, and the book debts due or growing due to the bankrupt), by public auction or private contract, with power to transfer the whole thereof to any person or company, or to sell the same in parcels.

(2) Give receipts for any money received by him, which receipts shall effectually discharge the person paying the money from all responsibility in respect of the application thereof.

(3) Prove, rank, claim and draw a dividend in respect of any debt due to the bankrupt.

(4) Exercise any powers, the capacity to exercise which is vested in the trustee under this Act, and execute any powers of attorney, deeds and other instruments for the purpose of carrying into effect the provisions of this Act.

(5) Deal with any property to which the bankrupt is beneficially entitled as tenant in tail in the same manner as the bankrupt might have dealt with it.

Powers Exercisable by Trustee with Permission of the Committee of Inspection. By Section 56, the trustee may with the permission of the committee of inspection do all or any of the following things—

(1) Carry on the business of the bankrupt, so far as may be necessary for the beneficial winding up of the same;

(2) Bring, institute, or defend any action or other legal proceedings relating to the property of the bankrupt;

(3) Employ a solicitor or other agent to take any proceedings or do any business which may be sanctioned by the committee of inspection;

(4) Accept as the consideration for the sale of any property of the bankrupt a sum of money payable at a future time, subject to such stipulations as to security and otherwise as the committee think fit;

(5) Mortgage or pledge any part of the property of the bankrupt for the purpose of raising money for the payment of his debts;

(6) Refer any dispute to arbitration, compromise any debts, claims, and liabilities, whether present or future, certain or contingent, liquidated or unliquidated, subsisting or supposed to subsist between the bankrupt and any person who may have incurred any liability to the bankrupt, on the receipt of such sums, payable at such times, and generally on such terms as may be agreed on;

(7) Make such compromise or other arrangement as may be thought expedient with creditors, or persons claiming to be creditors, in respect of any debts provable under the bankruptcy;

(8) Make such compromise or other arrangement as may be thought expedient with respect to any claim arising out of or incidental to the property of the bankrupt, made or capable of being made on the trustee by any person or by the trustee on any person;

(9) Divide in its existing form amongst the creditors, according to its estimated value, any property which from its peculiar nature or other special circumstances cannot be readily or advantageously sold.

With the permission of the committee of inspection, he may also appoint the bankrupt to superintend the management of the property, or to carry on the business, and may also make him an allowance for the support of himself and family, or in consideration of his services. (Sections 57 and 58.)

Remuneration of Trustee. By Section 82 (1)—

Where the creditors appoint any person to be trustee of a debtor's estate, his remuneration (if any) shall be fixed by an ordinary resolution of the creditors, or, if the creditors so resolve, by the committee of inspection, and shall be in the nature of a commission or percentage, of which one part shall be payable on the amount realized by the trustee, after deducting any sums paid to secured creditors out of the proceeds of their securities, and the other part on the amount distributed in dividend.

Distribution of Dividends. Section 62 enacts as follows—

(1) Subject to the retention of such sums as may be necessary for the costs of administration, or otherwise, the trustee shall, with all convenient speed, declare and distribute dividends amongst the creditors who have proved their debts.

(2) The first dividend, if any, shall be declared and distributed within four months after the conclusion of the first meeting of creditors, unless the trustee satisfies the committee of inspection that there is sufficient reason for postponing the declaration to a later date.

(3) Subsequent dividends shall, in the absence of sufficient reason to the contrary, be declared and distributed at intervals of not more than six months.

Rights of Creditor who has not Proved his Debt. By Section 65—

Any creditor who has not proved his debt before the declaration of any dividend or dividends shall be entitled to be paid out of any money for the time being in the hands of the trustee any dividend or dividends he may have failed to receive before that money is applied to the payment of any future dividend or dividends, but he shall not be entitled to disturb the distribution of any dividend declared before his debt was proved by reason that he has not participated therein.

Interest on Debts. Section 66 (1) provides as follows—

Where a debt has been proved, and the debt includes interest, or any pecuniary consideration in lieu of interest, such interest or consideration shall, for the purposes of dividend, be calculated at a rate not exceeding 5 per cent per annum, without prejudice to the right of a creditor to receive out of the estate any higher rate of interest to which he may be entitled after all the debts proved in the estate have been paid in full.

Bankrupt's Right to a Surplus. This is provided for by Section 69—

The bankrupt shall be entitled to any surplus remaining after payment in full of his creditors, with interest, as by this Act provided, and of the costs, charges, and expenses of the proceedings under the bankruptcy petition.

Unclaimed Funds or Dividends. By Section 153 (1)—

Where the trustee, under any bankruptcy composition or scheme, pursuant to this Act or any enactment repealed by this Act, has under his control any unclaimed dividend which has remained unclaimed for more than six months, or where, after making a final dividend, he has in his hands or under his control any unclaimed or undistributed money arising from the property of the debtor, he shall forthwith pay it to the Bankruptcy Estates Account at the Bank of England. The Board of Trade shall furnish him with a certificate of receipt of the money so paid, which shall be an effectual discharge to him in respect thereof.

Any person claiming to be entitled to any moneys in the Bankruptcy Estates Account may apply to the Board of Trade for them; and if the Board of Trade is satisfied as to the validity of his claim, they order payment to be made to him.

Example 5. From the particulars given on p. 894 make out the trustee's *Account of Receipts and Payments* to date of first and final dividend.

TRUSTEE'S ACCOUNT OF RECEIPTS AND PAYMENTS
TO DATE OF FIRST AND FINAL DIVIDEND

Dr. | *Cr.*

Receipts	Amount £	s.	d.	Payments	Amount £	s.	d.
To Cash deposited with Solicitor	10	–	–	By Board of Trade and Court Fees	153	14	6
,, Cash in hand	15	11	3	,, Law Costs of Petition	45	11	2
,, Cash at Bank	104	2	9	,, Trustee's Remuneration (as fixed by Committee of Inspection)—			
,, Stock	8,750	10	5	3% on £18,997 10s. 2d. assets realized	569	18	6
,, Furniture and Fixtures	320	4	6	2% on £19,430 14s. 9d. assets distributed[1]	388	12	3
,, Patents	2,500	–	–	,, Taxed Costs of Accountant and Shorthand Writer	256	4	8
,, Book Debts	7,426	15	3	,, Guarantee Premium	13	13	–
,, Bills of Exchange	2,420	10	6	,, Costs of Notices in *Gazette* and local newspapers	5	16	3
				,, Incidental Outlay— ,, Postages, Stationery, etc.	43	9	7
				Total Costs and Charges	1,476	19	11
				,, Allowance to Debtor	100	–	–
				,, Preferential Creditors— Rent	300	–	–
				Rates, Taxes, and Wages	240	–	–
				,, First and Final Dividend of 10s. in the £ on £38,861 9s. 6d. to Unsecured Creditors	19,430	14	9
£	21,547	14	8	£	21,547	14	8

[1] Ascertained by calculating $\frac{2}{102}$ of £19,819 7s., the *gross* amount distributable between Unsecured Creditors and Trustee.

Receipts

Cash deposited with solicitor, £10; Cash in hand, £15 11s. 3d.; Cash at Bank, £104 2s. 9d.; Stock, £8,750 10s. 5d.; Furniture and Fixtures, £320 4s. 6d.; Patents, £2,500; Book Debts, £7,426 15s. 3d.; Bills of Exchange, £2,420 10s. 6d.

Payments

Board of Trade and Court Fees, £153 14s. 6d.; Law Costs of Petition, £45 11s. 2d.; Taxed Costs of Accountant and Shorthand Writer, £256 4s. 8d.; Guarantee Premium, £13 13s. (authorized by the Committee to be paid out of the assets); Cost of Notices in *Gazette* and local papers, £5 16s. 3d.; Incidental Outlay: Postages, Stationery, etc., £43 9s. 7d.; Allowance to Debtor, £100; Preferential Creditors for Rent, £300, and Rates, Taxes, and Wages, £240; Liquidator's Remuneration (as fixed by the Committee of Inspection), 3% on £18,997 10s. 2d. Assets realized, and 2% on Dividend distributed to Unsecured Creditors, whose debts amounted to £38,861 9s. 6d.

QUESTIONS

1. Explain the difference between a Statement of Affairs and a Balance Sheet.
2. What is the object of a Deficiency Account? What are its usual contents?
3. What adjustments of profits and losses are sometimes required when preparing a Deficiency Account?
4. What is a trustee-in-bankruptcy? How is he appointed?
5. What books and accounts must a trustee keep? What is a Record Book?
6. Explain the Bankruptcy Estates Account. Can a trustee pay his receipts into any bank he prefers? What penalties attach to a trustee with regard to the keeping of a large cash balance?
7. What power has a trustee with regard to onerous property? Does this power apply to a lease? Name some of the powers of a trustee with regard to property generally.
8. State briefly some of the powers a trustee may exercise with the permission of the committee of inspection.
9. How is the trustee remunerated? How are dividends to be distributed by him? What are the rights of a creditor who has not proved his debt?
10. What provision is made by the Bankruptcy Act, 1914, with respect to the following?—

(*a*) Interest on debts; (*b*) surplus; (*c*) unclaimed dividends or funds.

EXERCISE XX

1. From the following particulars make out the Statement of Affairs of Thos. F. Sellers for submission to his creditors—

	£			£
Good Book Debts	3,872	Partially-secured Creditors	£872	
Doubtful "	1,500	Estimated Value of Securities	550	
Bad "	2,500			322
Unsecured Creditors	7,278	Creditors fully secured (estimated value of Securities, £2,500)		2,200
Bills Payable	1,200			
Stock	1,200			
Fixtures	300			
Cash at Bank	150			
Preferential Creditors	267			

Make out his Statement of Affairs, assuming that the Stock, Doubtful Debts, and Fixtures will realize 50 per cent of the value mentioned above.

2. Richard Humphrey's Balance Sheet on 31st January was as follows: *Assets:* Sundry Debtors, £106 2s. 3d.; Stock at cost, £395 11s. 9d.; Cash in hand, £1 2s. 11d.; Shop Fittings at cost, £173 12s. 6d. *Liabilities:* Bank Overdraft, £241 19s. 3d.; Trade Creditors, £378 14s.; John Joker, for Rent, £15; Capital, £40 16s. 2d. Being pressed by Creditors, he filed his petition in bankruptcy. On going through the list of Debtors, he found that of the amount entered in the books, £60 11s. 3d. was irrecoverable, and that accounts amounting to £10 11s. 6d. were disputed. He estimated that the Stock, if sold by auction, should realize £315, and that the Shop Fittings would realize £45. His Household Furniture was estimated at £280. He owed to sundry tradesmen £55 4s. 6d., and a year's rent for his dwelling-house at £35 per annum. He also owed £2 1s. 6d. Income Tax, and £8 15s. for Rates. The shop assistant had not received her wages for the previous two weeks at 17s. 6d. a week. Prepare Statement of Affairs. (*U.L.C.I.*)

3. Prepare a Statement of Affairs from the following particulars of Jonas Johnson, Manufacturer, Burnley, on the 18th March.

	£
Unsecured Creditors	22,100
Fully-secured Creditors	9,870
Partly-secured Creditors	4,764
Securities held by Creditors, fully secured, valued at	12,107
Securities held by Creditors, partly secured, valued at	2,321
Creditors for Rents, Rages, Taxes, and Wages (of which £600 only is preferential)	850
Plant: Book value £12,600, estimated to produce only one-third of this sum.	
Office Furniture, estimated to realize	50
Cash in hand	5
Book Debts—	
Good, expected to realize	3,000
Doubtful, £500, expected to realize	200
Bad, £300, expected to realize	*nil*
Life Policy on the life of Jonas Johnson, in the Atlas Assurance Co., paid 20 annual premiums of £24 each. Estimated surrender value is ⅗ of the amount paid in premiums.	

How much in the £ does the estate show? (*U.L.C.I.*)

4. From the following particulars prepare a Statement of Affairs and Deficiency Account as on 31st December, for the information of the Creditors of Black & White, who are insolvent: Cash in hand, £200. Book Debts: Good, £2,000; Doubtful, £300 (estimated to produce, £100); Bad, £500. Stock-in-Trade valued at £1,900. Freehold Property cost £3,000, estimated to produce £2,500; this property is assigned to creditors for £2,300. Shares held £150: these are given as security for a debt of £400. Creditors: Unsecured on open account, £5,000; on Bills Payable, £1,000; partially secured by Shares, £400; fully secured on Freehold Property, £2,300; preferable Claims for Taxes, Wages, and Salaries, £100. Black's drawings, £2,000; White's drawings, £2,850. The business commenced on 1st January, three years ago. Black put into it £2,500 and White £2,900. The first year showed a profit of £3,000, but the next two years showed a loss of £4,300. No provision was made for Bad Debts.

5. Thomas Jones having been adjudicated bankrupt, the following Balances appear in his books—

Cash in hand, £20; Overdrawn at Bank, £150; Stock-in-Trade (cost £800) estimated at £500; Machinery (cost £500) estimated at £400; Trade Fixtures (cost £300) estimated at £120; Book Debts, Good £500 (estimated to produce £500); Doubtful, £250 (estimated to produce £100); Bad, £250;

Unsecured Creditors, £2,500; Creditors fully secured, £500; estimated Value of Security, £600; Liabilities on Bills, £400; Creditors for Half-year's Rent, £50; Rates and Taxes (12 mos.), £10; Domestic Servants' Wages (3 mos)., £30.

Arrange the above in the form of a Statement of Affairs for presentation to the first meeting of Creditors.

6. Prepare Statement of Affairs of Winter & Co., Shippers, who filed their Petition on 29th September.

Books of Partnership showed that there was owing £9,610; included in this are Creditors for £2,560, who hold stock valued at £3,000, and also Creditors for £1,000 who hold stock valued at £565. The Assets consist of Cash in Office, £10; at Bank, £400. Stock-in-Trade, £2,000 (estimated to produce £1,200). Land and Buildings, £1,500 (estimated to realize £1,000). Furniture, etc., £500 (estimated to produce £250). Preferential Creditors for Wages and Taxes, £90. Good Book Debts, £500. Doubtful Debts, £250 (estimated to realize £100).

7. Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming—

	£
Sundry Debtors: Good, £1,280; Doubtful, £2,800 (estimated to produce £1,000); Bad, £700	4,780
Sundry Freehold Houses, etc. (estimated to produce £2,000)	3,300
Shares: 1,000 Ordinary Shares in the Cable Telegraph Co. valued at par	1,000
Mining and Railway Shares (£2,500 are held as security by partly-secured creditors and the balance by fully-secured creditors)	9,450
Loss through the unsuccessful defence of an action at law	5,420
Business Expenses	3,200
Creditors: Unsecured	16,740
,, Partly secured	5,420
,, Fully secured	3,110
Preferential Claims for Salaries and Rent	500
Private Drawings	1,200
Samuel Hobson: Capital Account	3,800
Cash at Bank	420
Bills Receivable: Good	800

Prepare the Statement of Affairs for submission to his creditors and a Deficiency Account in the ordinary form. (*London Chamber of Commerce.*)

8. Charles Jackson guarantees a loan of £200 for a friend. Hearing that this friend was in financial difficulties and only able to pay about 10s. in the £ if made bankrupt, and being himself pressed by creditors, he decided to file his petition.

He had a works which had cost recently £1,000, but on this there was a mortgage of £800; Cash at the Bank, £140 2s. 3d.; Cash on hand, £11 10s.; out of which he gave his solicitor £10 on account of costs. His Stock-in-Trade had cost £398 4s. 3d., but he did not think that on forced realization it would bring in more than £275; his Machinery, etc., he thought, ought to sell for £200, and the Fittings, etc., for £50; after considering his Book Debts carefully, he thought that £118 10s. was good, £296 11s. bad, and £76 4s. 3d. doubtful, perhaps worth £30; he had also a Bill of Exchange for £87 4s.

He had unsecured Creditors for £753 4s. 11d.; he had accepted two accommodation bills of £100, and on reference to his Bill Book found that he had two months before endorsed over William Fletcher's 3 months' bill for £167 5s. to a creditor.

He owed £10 for House Rent, £20 for Income Tax, £29 18s. 3d. for Rates, and £26 16s. 5d. for Wages.

He had also Household Furniture worth £175, and a gold watch and chain worth £15.

Make out in proper form, Charles Jackson's Statement of Affairs. (*U.L.C.I.*)

9. Fred Jackson, on the 31st March, unable to meet his engagements, requires a Statement of Affairs for submission to his creditors. Prepare the same from the following—

	Book Value £	*Estimated to Realize* £
Leasehold Premises held for 99 years, subject to a payment of Ground Rent, £100 per year	10,000	9,000
Book Debts: Good	6,650	6,000
,, ,, Doubtful	500	250
,, ,, Bad	750	—
Fixed Plant and Machinery	4,000	3,000
Stock-in-Trade	2,000	1,400

Cash in hand, £10. Life Insurance Policy for £2,500 at death, subject to a premium of £50 a year due and paid 28th February last, and held by Insurance Co. for a loan of £200; Surrender Value, £500. Household Furniture and Effects, £360. Private and Household Debts, £290. 600 Shares in Cooper & Co., Ltd., of £1 each: 10s. paid up, now quoted at 12s. 6d. per share. Loan of £5,000, secured by a first mortgage on the leasehold at 4½ per cent, the Interest of same being paid to the 31st March. Unsecured Creditors, £15,000. Bankers for Overdraft and Interest £5,000, holding as security a second mortgage on leasehold of £4,000. Loan from E. Taylor £400 at 5 per cent per annum, interest being paid to 31st March, who holds as security second charge on Life Insurance Policy. Ground Rent of Leasehold accrued since 31st December last.

With the following additional information, prepare a Deficiency Account—

On the 1st April, three years ago, he had a Capital of £12,000, in addition to Household Furniture. His Private Drawings, as shown in the Cash Book, were as follows—

	£
For the first year ended 31st March	4,905
,, second ,, ,, ,, ,,	4,000
,, third ,, ,, ,, ,,	5,000

He made a profit in his business in the first year of £5,000, and, in the subsequent years, losses of £3,000 and £935 respectively. (*U.L.C.I.*)

10. A Liverpool merchant, trading to the West Coast of Africa, finding himself, on 1st July, unable to meet his engagements, asks you to make up a Statement of Affairs for submission to his creditors.

You find his books disclose—

	£
Unsecured Creditors	8,830
Fully-secured Creditors	2,352
Who hold security of the cost value of £2,630.	
Partly-secured Creditors	37,697
Who hold securities of the cost value of £18,098.	
Preferential Creditors	822
Bills Payable	20,066
,, Receivable (discounted) (expected to rank, £1,000)	5,833

	£
Book Debts in England (Good)	1,341
,, ,, ,, (Doubtful) £170, estimated to produce	85
,, ,, ,, (Bad) £34, of no value	
Stock in Liverpool at cost, £1,306, estimated at	1,200
,, and Book Debts, *less* Sundry Liabilities, at four Stations on the Coast	36,584
Of which it is estimated there will be a loss on realization of Stock of £5,638, and of Book Debts of £7,586.	
Four Station Buildings, Plant, Steamers, and Carrying Craft, £40,000, expected to realize	20,000
Office Furniture, £289, estimated to realize	200
Cash in hand	4
,, at Bankers	80

Show his position, and make out his Deficiency Account from 1st July, five years ago, when he had a Capital of £42,000. Profits appear from the books to have been made in first and second years of £5,000 and £4,000 respectively, and losses in the three subsequent years of £2,100, £2,600 and £3,031 respectively, after allowing £2,000 a year for Interest upon Capital, and his withdrawals having been at the rate of £4,500 a year. *(Chartered Accountants.)*

11. Prepare Statement of Affairs on 9th July of "The Sandy Freehold Land Society." Unsecured Creditors, £200,000; Creditors fully secured, £6,000; Property held by secured Creditors, £12,000; Creditors for Rates, Taxes, and Wages (preferential), £300; Bills of Exchange (good), £22; Book Debts, £27,000; (Good, £1,000; Doubtful, £25,000, produce £2,000, Remainder bad); Property, £56,000; Loans on Mortgage (produce £60,000), £170,000; Office Furniture, etc., £100; Cash at Bankers, £900; at Office, £100. *(Chartered Accountants.)*

12. Prepare Statement of Affairs and Deficiency Account as on the 10th October, of William Corby.

Cash in hand, £85; Book Debts, £3,472 (estimated to produce £2,869); unfinished Contract in hand (estimated to produce £3,000 over and above the cost of completing it); Plant, Tools, etc., cost £1,880 (estimated to realize £500); Office Furniture (estimated to realize £25); Stock-in-Trade valued at £1,900; Investments valued £6,200, of which are deposited with bankers as security for loan £5,460; Life Policies for £2,000, of the estimated surrender value of £1,470, subject to advances made by the Insurance Co., amounting to £1,420; Unsecured Creditors on Trade Account, £4,140; Unsecured Creditors for cash advanced, £5,308; W. Smith for two months' Wages due to him as clerk, £30; A. Compton, six months' Salary due to him at £15 per month; Rent recoverable by distress, £45; Bankers for Loans partly secured, £10,134 (estimated value of securities held by bankers, £7,460, viz.: Investments, £5,460, and Lease, £2,000); Capital Account on 1st January, as shown by the books, £189; Loss on Trading from 1st January to 10th October, £374; Loss on Sale of Investments made on 13th June, £200; Drawings, £750. *(Chartered Accountants.)*

13. Prepare Statement of Affairs and Deficiency Account of Messrs. Jones & Co., on 31st December.

The firm commenced business on 1st January, five years ago, with a Capital of £25,000. The Trading, after charging Interest upon Capital at £1,000 a year, resulted in a Profit for first year of £602, and in Losses in the subsequent respective years of £370, £450, £500, and £700. The Drawings of the Partners were at the rate of £900 a year; and £1,500 had been expended during the five years upon Patents and Experiments, and at the date of Bankruptcy stood in the books at that sum. Unsecured Creditors, £15,050; Creditors partly secured, £19,080 (holding security, as stated by the books, of the value of

£18,100, but which is only estimated to realize £6,000); Creditors for Wages Taxes, etc., £500; Bills Receivable discounted, £2,060 (upon which it is estimated there will be a liability of £280); Stock-in-Trade, £10,100 (which is estimated to realize £8,000); Book Debts, Good, £7,860; Doubtful and Bad, £650 (estimated to realize £178); Land and Buildings, £8,000 (estimated to realize, £5,000); Machinery and Plant, £12,500 (estimated to realize, £5,500); Cash in hand, £2. *(Chartered Accountants.)*

14. A filed his petition on 31st December, and his Statement of Affairs was composed of the following figures—

	£
Creditors unsecured	75,000
,, partly secured by lien on Shares	40,000
,, fully secured by lien on Stock	100
Liability on Bills Receivable (estimated to rank, £3,500)	7,000
Mortgage on Mill	10,000
Creditors payable in full	3,000
Book Debts, Good	20,000
,, ,, Doubtful and Bad (estimated to produce £2,000)	10,000
Consignments, good	5,000
Stock (estimated to realize £40,000)	60,000
Shares (cost and estimated to realize)	16,000
Cash at Bankers	100
Bills of Exchange	1,400
Mill of the value of	11,000
Machinery (estimated to realize £12,000)	15,000
Fixtures (estimated to realize £1,500)	3,000
Cottages (estimated to realize £3,000)	3,500

On 1st January, six years ago, he had a Capital of £50,000. Profits were made in the six years of £20,500, after allowing interest on Capital £10,000, and withdrawals amounted to £63,600.

Prepare the Statement of Affairs and Deficiency Account. *(Chartered Accountants.)*

15. John Howson is unable to meet his engagements. His liabilities are—

	£
Underbank Banking Co., Ltd. (As security for which they hold £1,500 Debenture Stock of the Berkshire Railway Co.)	1,200
Unsecured Creditors	4,000
His Father (Who holds a Mortgage on the premises.)	3,000
Wages	100
Chief Rent (Half-year)	15
Bills discounted (One-half of which will probably rank against the Estate.)	500

And his Assets are—

Buildings, of the value of	2,000
Machinery, of the value of	1,500
Fixtures, etc., of the value of	200
Debenture Stock of the Berkshire Railway Co., value	1,500
Stock, estimated to realize	1,500
Book Debts, Good	1,000
,, ,, Doubtful (estimated to realize £100)	200
,, ,, Bad	150
Cash	15

Prepare the Statement for submission to his Creditors. *(Chartered Accountants.)*

16. Prepare Statement of Affairs of John Mason from the following particulars at 31st March—

Freehold Land and Buildings	£5,000,	estimated to produce		£4,500
Book Debts—Good	1,000			
,, ,, —Doubtful	300	,,	,,	100
,, ,, —Bad	500	,,	,,	*nil*
Stock-in-Trade	1,500	,,	,,	1,000
Plant and Machinery	1,200	,,	,,	600
Cash in hand	25			
Household Furniture and Effects	300	,,	,,	180

Mortgage on the above Freehold Land and Buildings, £3,500, @ 5 per cent. The Interest was paid to 31st December last.

Trade Creditors unsecured, £2,500. Cash Creditors unsecured, £1,000.

Bank Overdraft, £1,000 (the Bank holding, as security, a policy for £2,000, payable at death: premium, £50 per annum; surrender value, 31st March, £600). Preferential Creditors for Rent, Rates, Taxes, and Wages, £300.

(*Chartered Accountants.*)

17. Henry Jones filed his petition in bankruptcy on the 30th June. His books showed the following balances—

	£	£
Cash in hand	10	
Fixtures and Fittings	250	
(Estimated to produce £80)		
Stock-in-Trade	1,800	
(Estimated to produce £1,200)		
Sundry Creditors—Open accounts		2,000
,, ,, —Bills Payable		2,200
,, Debtors	5,000	
Good, £1,000		
Doubtful, £2,000 (estimated at 50%)		
Bank Overdraft		1,200
Capital		1,660
	£7,060	£7,060

Liability on Bills Discounted, £500; £100 expected to rank.

His Household Furniture, etc., was valued at £250.

He owned the house he lived in—it was valued at £750—and he had a mortgage on it of £600 at 4%. Interest paid to 31st December last.

Preferential Creditors amounted to £35 (included in Sundry Creditors), and £15 for Rates on his house.

Prepare a Statement of Affairs. (*Chartered Accountants.*)

18. A finds, by the following summary of assets and liabilities of his business, that he is insolvent, and on 15th October files his own petition in bankruptcy. Prepare his Statement of Affairs for presentation to his creditors.

The Bank's Overdraft is secured by the deposit of deeds representing his Freehold Property (valued for the purposes of the Statement at £6,000), and Dock Warrants for Stock of the value of £2,383 10s. 10d. W. Smith's Loan is secured by an assignment of a policy on A's life valued at £100. There are contingent Liabilities on Bills Discounted amounting to £589 17s. 2d., of which the sum of £229 13s. 5d. is expected to rank. Of the Book Debts, A states that £144 are Bad and £365 Doubtful; he estimates the value of the latter at £178. Of the Bills Receivable, he estimates that the sum of £283 3s. 7d. is Bad. A has Private Debts amounting to £389 5s. 3d., and has Private Assets consisting of the above-named policy and Household Furniture valued at £585.

SUMMARY OF ASSETS AND LIABILITIES

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors .	23,598	7	6	Cash in hand . .	29	2	7
Bank Loan. . .	6,897	3	6	Petty Cash in hand .	2	13	9
W. Smith: Loan .	589	2	6	Stock at Cost . .	9,852	8	7
H. Jones: 9 months' Rent to 29th Sept. last . . .	150	–	–	Fixtures and Fittings .	329	7	2
Rates: 6 months to 31st March last .	32	3	6	Office Furniture .	262	8	–
				Horses and Carts .	682	5	–
				Sundry Debtors . .	5,289	3	5
				Bills Receivable . .	4,283	3	7
				Freehold Property .	6,589	2	7
	£31,266	17	–		£27,319	14	8

(*Chartered Accountants.*)

19. Catchem & Cheetam filed their petition in bankruptcy on 31st December. Their books showed that they owed £50,000 to Unsecured Creditors, £30,000 to Creditors holding lien on goods for £10,000; £10,000 Mortgage on the Works, and £1,000 for Salaries and Rates. Bills of Exchange for £10,000 had been discounted with their Bankers, and it was estimated that there was a liability in respect of them of £3,000.

Their Assets were—

Consignments, £20,000 (estimated to realize £2,000). Good Book Debts, £18,000; Doubtful Debts, £6,000 (estimated to realize £3,000); Bad Debts, £15,650. Works, cost £100,000 (depreciated out of Profit and Loss to £75,000), estimated to realize £50,000. Furniture and Fittings, £2,000 (estimated to realize £1,000). Stocks and Work in progress, £25,000 (estimated to realize £18,000). Cash and Bills, £1,350.

They commenced business on 1st January, five years ago, with a capital of £83,000. After charging annually £5,000 for depreciation of the Works, £4,000 for Interest on Capital, and £1,500 for Partners' Salaries, the trading showed profits of £6,500 in first year and £5,000 in second year; and losses of £6,000 in third year, £7,000 in fourth year, and £9,500 in fifth year; while the withdrawals of the partners averaged £5,500 a year.

Draw up Statement of Affairs, and prepare Deficiency Account.

(*Chartered Accountants.*)

20. A trader files his petition in bankruptcy on 30th June, and you are instructed to prepare his Statement of Affairs. The information you are able to obtain as to his position is as follows—

The Stock-in-Trade at cost is £7,200, of which £600 worth is in the hands of a Creditor for £1,000, who is entitled to exercise a lien. Book Debts: Good, £9,750; Doubtful, £120 (worth 6s. 8d. in the £); Bad, £150; Fixtures and Fittings (after depreciation), £230; Cash in hand, £10. Bills Receivable, £1,100 (held by Bankers against overdraft of £4,000, the balance of which is secured by a second charge on Debtor's freehold property and by the guarantee of his brother). Customers' Bills under Discount, £1,500 (of which £200 is ascertained to be bad and £100 is doubtful). Freehold Property, £3,000 (subject to a first mortgage of £2,000). The Unsecured Creditors amount to £29,800, in addition to claims for Rates, Taxes, and Wages amounting to £240. The Stock-in-Trade and the Book Debts (outside the bills) are estimated to be worth 75 per cent of their face value and the Freehold Property (which cost £2,800) is valued at £2,200. Subject to the modifications above stated. the Assets are worth their book values.

You learn that the Debtor had a surplus of Assets of £5,000 on 1st January, two and a half years ago, since when he has withdrawn £3,000 per annum in equal monthly instalments. His profits for year ended 31st December (first year) were £2,100, and for second year £420, since which time he has not made up his books.

From these details you are required to prepare, as nearly as may be in statutory form: (*a*) Statement of Affairs; (*b*) Deficiency Account.

(*Incorporated Accountants.*)

21. Prepare Statement of Affairs and Deficiency Account of Mr. Alfred Sykes, on 31st December. Good Book Debts in England, £6,650; Doubtful, £5,000; Bad, £4,500. Properties: Stock and Book Debts, in Brazil, £32,000; Warehouse in England, £26,000; Stock in Warehouse, £1,000; and at Bleachers' and Finishers', £4,750. Fixtures, Hoist, etc., £500. Cash at Bank, £1; in hand, £5. Creditors, £65,000 (of which £250 is for Wages and Taxes, £20,000 is in respect of a Mortgage on the warehouse building, and £7,500 is for Bleaching and Finishing). Bills Payable, £14,500; and there is a liability of £3,000 in respect of Bills Receivable, which, however, is not expected to rank. Assume that Stock, Doubtful Debts and Fixtures in England will realize two-thirds, and the Properties, Stock, and Book Debts abroad one-half of their face-value. On 1st January, five years ago, he had a Capital of £30,000. After charging interest thereon at the rate of £1,500 a year, and paying £800 a year for Interest upon the Warehouse Mortgage, in the first three years he made profits of £4,200, £3,700, and £800 respectively; and in the last two years losses of £6,400 and £7,894. His withdrawals amounted to £6,200 a year. (*Chartered Accountants.*)

22. Prepare Statement of Affairs of Nathan Thorpe, Engineer, on 20th March.

		Book Values	*Estimated to produce*
		£	£
Leasehold Premises held for 99 years at £50 a year		5,000	4,500
Fixed Machinery and Plant on the said Premises		2,000	1,000
Loose Tools, Plant, etc.		700	350
Stock-in-Trade		1,000	600
Book and other Debts—	Good (*less* 5%)	300	285
,, ,,	Doubtful	800	200
,, ,,	Bad	2,000	

Cash in hand, £5; 500 £1 Shares in the Hole Mine Co., Ltd., 5s. per share paid (balance called up). In liquidation. No return expected. Household Furniture and Effects, £250; Life Insurance Policy for £2,000 at death, subject to premium £35 a year, due 30th December, held by Insurance Co. for Loan of £180. Surrender Value, £200 (*less* loan).

Liabilities: Creditors for Unsecured Trade Debts, £3,000; Private and Household Debts, £150; Loan of £2,000 at 4% secured by First Mortgage on Leaseholds, Interest paid to 20th May last; Bankers for Overdraft secured by second Mortgage on Leaseholds, £2,500; Loan of £1,000 at 5% secured by third charge on Leaseholds, and second charge on Life Insurance Policy. Interest paid to 20th September last; Ground Rent of Leaseholds accrued since 25th March last had not been paid; Rent of Dwelling-house, £30 for half-year due 25th December last; Taxes due 1st January last, £20; Local Rates, £25; Liability on Shares of Hole Mine Co., Ltd., above mentioned; omit calculations of Income Tax.

(*Chartered Accountants.*)

23. Johnson & Caley, Merchants, are unable to meet their obligations. From their books, papers, and information supplied by them, the following particulars relative to their affairs are ascertained—

	£
Cash in hand	250
Debtors—Good, £1,250; Doubtful, £600 (estimated to produce £200); Bad, £1,000	2,850
Shares in the Straights Shipping Co., Ltd., of par value	5,000
Property, estimated to produce £9,000	14,000
Bills Receivable (Good)	4,250
Other Securities—£3,000 pledged with partly-secured Creditors, and the remainder with fully-secured Creditors	28,000
Johnson's Drawings	9,000
Caley's ,,	8,400
Sundry Losses	13,500
Trade Expenses	7,400
Creditors—Unsecured	25,000
,, Partly Secured	23,900
,, Fully Secured.	17,000
Preferential Claims—Wages, Salaries, and Taxes	750
Johnson—Capital	10,000
Caley ,,	16,000

Prepare a Statement of Affairs, showing the Assets, with respect to their realization; also a Deficiency Account in respect of the deficiency shown by the Statement of Affairs. *(Chartered Accountants.)*

24. Prepare the respective Balance Sheets of the firm of Robinson Bros., and of the several partners—Alfred, Benjamin, and Charles; after which prepare the respective Statements of Affairs of the firm and the several partners, giving effect to the rights of holders of securities; accepting the values of Assets as given on 3rd April—

	£
Trade Creditors, Joint Estate, unsecured	31,280
Cash ,, ,, ,, ,,	6,642
,, ,, ,, ,, collaterally partly secured by	9,015
Policies of Assurance	
On the life of Alfred, worth	1,615
,, ,, Benjamin, worth	738
,, Creditors, Joint Estate, fully secured	10,435
They holding Securities belonging to the Firm, worth	14,395
Liabilities on Bills Discounted, considered good	1,340
Preferential Creditors of Joint Estate	2,128
Tradesmen's Claims on Separate Estate of Alfred	697
Cash Creditors on Separate Estate of Alfred	2,578
They holding as security Freehold Property of his, worth	3,000
Tradesmen's Claims on Separate Estate of Benjamin	119
,, ,, ,, ,, Charles	190
Cash Creditors of Charles, unsecured	510
,, at Bank at Credit of Joint Estate	1,050
,, in hand ,, ,,	843
Debtors ,, ,,	2,975
Stock ,, ,,	30,155
Fixtures and Furniture ,,	1,400
Household Furniture, Separate Estate of Alfred	1,000
,, ,, ,, ,, Benjamin	1,000
,, ,, ,, ,, Charles	500
Revisionary Interest under Will of John Smith, deceased, Separate Estate of Charles, worth	200
Alfred had overdrawn his Account with the Firm by	4,500
Benjamin ,, ,, ,,	3,000
Charles ,, ,, ,,	1,182

(Chartered Accountants.)

25. A business carried on under the style of Wood & Smith finds itself in difficulties and instructs you to prepare a Statement of Affairs for submission to a private meeting of the creditors.

The following particulars are obtained from the Books, as at 1st February—

	£ s. d.	£ s. d.
Unsecured Creditors		23,000 5 6
Loan from A		2,000 - -
Creditors partly secured . . .	4,600 - -	
Estimated Value of Security . .	4,000 - -	
Preferential Claims		240 12 6
Stock-in-Trade		1,500 8 -
Cash at Bank		270 14 2
,, in hand		65 4 10
Fixtures		400 - -
Debtors—Good	820 - -	
,, Bad	72 15 9	
,, Doubtful	41 5 -	

As regards the separate Estates, Wood had no creditors nor assets, and Smith was a limited partner with £1,000 in the business. With respect to the loan, A had lent the £2,000 without security, and under an arrangement whereby he was to receive interest varying with the profits.

(*a*) Prepare Statement of Affairs allowing 15 per cent off Stock, 10 per cent off good Book Debts (assuming that the Bad and Doubtful Debts realized *nil*), and 50 per cent off Fixtures.

(*b*) Append to statement any comments upon transactions, which, in your opinion, require special consideration. (*Incorporated Accountants.*)

26. A and B carried on business in partnership as Ironmongers, and on 31st December, being in financial difficulties, they called their creditors together and laid before them the following Statement of Affairs—

Creditors	£	£	*Assets*	£
Unsecured Creditors .		1,200	Cash in hand . . .	10
Bank for Overdraft— Unsecured . .		600	Stock-in-Trade (cost £1,000) estimated to produce .	750
Secured Creditor—			Book Debts—Good, £300 do.	300
Loan on Mortgage .	800		,, ,, Doubtful, £100 do.	50
Value of Property contra . . .	1,000		,, ,, Bad, £150 do.	—
			Fixtures and Fittings (cost £500) . . . do.	100
Estimated Surplus to contra . . .	200		Property Valued at £1,000 subject to Mortgage for £800 contra—Estimated Surplus	200
Preferential Creditors for Rent, Wages, etc., to contra . . .	160		A's Estate—Estimated Surplus	150
				£1,560
			Deduct Preferential Creditors.	160
				£1,400
			Deficiency	400
		£1,800		£1,800

B's estate showed a considerable deficiency.

The creditors agreed to accept 12s. 6d. in the £1, and appointed M as Trustee to realize the estate and pay the dividend, his remuneration to be 5 per cent on the amount realized and 5 per cent on the amount distributed. The legal and other costs amounted to £35.

On realization, the Stock produced £800; the Book Debts, £335; the Fixtures and Fittings, £115; the surplus from the property was £150: and the surplus from A's estate, £120.

Draw up the Trustee's final Statement of Account showing the disposition of the estate. (*Chartered Accountants.*)

27. Prepare from the following figures and particulars, a Trustee's Cash Account showing the position of the estate of Messrs. Tant & And, against whom a receiving order was made on 19th October, and first and final dividend paid on 28th September following.

The chief assets were Book Debts, which the Debtors estimated to produce £2,144 9s., but which realized £2,135 5s. 11d., and two Life Policies which the Debtors stated were worth £472 19s. 9d., but which realized £565, out of which the Trustee had to pay £375 16s. 6d. to redeem the security. The Cash in hand and at bank amounted to £4 7s. 11d.; some small Investments stated to be worth £55 realized £40 13s. 2d. The Miscellaneous Receipts were £8 12s. 8d. and £5 Deposit on Creditors' Petition.

There were nine Preferential Creditors' Claims amounting to £26 9s. 6d., and a Dividend of 2s. 9¼d. in the £ was paid to the unsecured creditors, whose claims amounted to £13,250 4s. 4d.

The other payments amounted to £504 4s. 8d., including Trustees' Remuneration, £206 3s. 6d.; Board of Trade and Court Fees, £123 11s. 5d.; Law Costs, £60 15s. 8d.; Auctioneers' Charges and Incidental Outlay. (*Incorporated Accountants.*)

28. A Trustee of a bankrupt Estate, with Liabilities of £18,000, has completed his realization of the Estate, and prepares to close the matter. His receipts have been—

	£		£
From Stock-in-Trade . .	1,250	From Trading . . .	7,000
,, Book Debts . .	3,100	,, Household Furniture .	450
,, Jewellery Pledged .	700	,, Freehold Buildings .	3,000

His payments have been—

	£		£
Costs of Petition . . .	40	Mortgage on Freehold . .	2,000
Auctioneers' Costs . .	180	Board of Trade Fees . .	80
Shorthand Writers' Charges .	15	Notices in *Gazette*, etc. . .	5
Trading Payments . .	6,250	To redeem Jewellery . .	400

The Committee allow the remuneration of the Trustee at a commission of 5 per cent on Assets realized and 3 per cent on Assets distributed. Without providing for further payments, you are required to write up the Estate Cash Book, showing the final close of the Estate. You must assume that all items have been received from or paid to Bank, but analysis columns may be dispensed with. (*Incorporated Accountants.*)

29. Give Journal entries (with narrations) to record the following—

Jan. 1. I sold horses to Dodd for £500, receiving cash on account £100 and four Acceptances of £100 each at 1, 2, 3 and 4 months respectively.

,, 3. Discounted Bills due 4th Feb. and 4th March with my Bank and was credited with the proceeds £195.

,, 31. Dodd gave me notice that he could not meet the bill due 4th Feb., and requested that it should not be presented.

Feb.	4.	Bank debited my account with the Bill not met.			
Apr.	5.	Bank credited my account with Bill due 4th inst.			
,,	6.	Received cash for balance of Dodd's account—the Bill outstanding was cancelled and returned to Dodd.			
May	1.	Received First and Final Dividend on Bradley's A/c of 5s. 6d. in £	£2	15	-
,,	2.	James's A/c (previously written off as bad) recovered part	5	-	-
,,	3.	Consigned Goods to Earle, Newcastle	100	-	-
,,	4.	Bought of French on Joint A/c with Brockle—Tea	500	-	-
,,	5.	Received Cash for Brockle's half of transaction	250	-	-
,,	6.	Sold for Cash Tea purchased on Joint A/c with Brockle	700	-	-
,,	6.	I charged Commission and my Expenses on the Joint A/c Sale	18	6	-
,,	7.	Paid Brockle amount due to him	—	-	-

Give copy of the Joint Adventure A/c, showing division of the Profit.

(*Civil Service.*)

30. (*a*) What is an Accommodation Bill?

(*b*) Smith has transactions with Jones in accommodation bills. Give the Journal entries with narrations which should be made in the books of Jones to record the following transactions—

On 1st Jan. Smith draws on Jones at three months for £1,000 and agrees that the proceeds of the bill should be shared equally. He discounts the acceptance with the London and Joint Stock Bank, Ltd., receiving £990 in cash, of which he hands Jones £495 in cash. On 31st March, in order to provide funds to meet this bill, Jones draws on Smith for £1,100 at three months, and discounts the acceptance with Parr's Bank, receiving £1,090 in cash, and hands Smith £44 in cash. On 29th June, Smith is made a bankrupt. Jones meets both bills. On 31st Dec. a first and final dividend of Smith's estate is declared at 10s. in the £.

(*Civil Service.*)

31. (*a*) State the general rules for discriminating between Capital and Revenue expenditure.

A manufacturer buys some Plant and Machinery. The invoice total is £10,655 14s. 6d. Included in this sum is an amount of £250 12s. 8d. for "duplicate parts" of certain intricate and delicate machinery. Is this last item Capital or Revenue expenditure? Give reasons for your answer. How should the amount of the invoice be treated in the books?

(*b*) What are Secret Reserves? How are they made? State briefly the arguments for and against them.

32. The Toilet Requisites Co., Ltd., manufacture and sell two specialities, namely, "Excelsior" Soap and "Nymph" Scent. The net sales are—Soap Dept., £47,328 14s. 1d.; Scent Dept., £31,552 9s. 5d. The gross profits of the departments are as follows—Soap, £26,480 3s. 11d.; Scent, £16,660 12s. 2d. You are asked to construct the Profit and Loss Account, and to ascertain the net profit of each department, apportioning the following expenses according to the respective turnovers of the two departments—

	£	s.	d.
Advertising	10,650	2	1
General Expenses	17,426	10	5
Depreciation, Bad Debts, and Reserves	5,781	7	6

The Managing Director is entitled to a commission of 5 per cent on the net profit of each department after charging this commission.

33. T. Tompkins, wholesale boot and shoe dealer, has three ledgers, "Bought," "Sales," and "General" respectively, all kept on the self-balancing principle.

(*a*) Rule a suitable form of Cash Book (payments side only), and enter therein the following particulars, analysing them into their proper columns—

19—			£	s.	d.
Jan.	4.	Paid Wages by cheque	27	13	6
,,	11.	Paid D. Dunlop by cheque	165	18	6
,,	11.	Discount allowed by him	8	14	8
,,	11.	Paid Wages by cheque	31	14	8
,,	13.	Bill Payable due this day duly honoured	270	10	6
,,	16.	Paid E. Ernest by cheque	82	9	–
,,	16.	Discount allowed by him	4	6	9
,,	17.	Drew cheque for Office use	10	–	–
,,	18.	Drew cheque for Self	50	–	–
,,	18.	Paid Wages by cheque	29	2	10
,,	19.	Purchased of B. Brown for Cash, Goods	50	10	5
,,	24.	Bill Receivable £150, due this day (acceptor J. Smith), returned by Bank dishonoured, noting charges 7s. 6d.	150	7	6
,,	25.	Paid F. Franklin by cheque	206	9	6
,,	25.	Discount allowed by him	10	17	4

(*b*) Submit *pro forma* Bought and Sales Ledger Adjustment Accounts as they would appear in Tompkins' General Ledger.

34. Brown & Robinson are partners dividing their profits in the proportion of three-fourths and one-fourth. Brown's Capital is £15,000 and Robinson's is £10,000. They dissolve partnership and realize the assets standing on the Balance Sheet as follows—

Stock		£8,000	realized	£7,500
Book Debts	£14,000			
Less Provision	2,000			
		12,000	,,	10,000
Buildings		7,500	,,	7,000
Plant and Machinery		8,000	,,	3,000
Cash		2,500	,,	2,500

Their liabilities are as follows—

Sundry Creditors	£9,000
Mortgage on Buildings	3,000
Bills Payable	1,000

which are all paid in full.

Prepare a summary of the Cash Account and show the adjustment of the Partners' Accounts. (*Civil Service.*)

35. The Net Profits of Freestone & Co., Ltd., for the year 19— amounted to £20,000. Undistributed Balance from previous year was £5,000; Paid-up Capital in Ordinary Shares, £70,000; Debentures Issued, £30,000; Plant Account, £80,000.

Give Journal entries (with narrations) to give effect to the following—

(1) Interest at 5 per cent per annum less tax at 10s. half-year due 31st Dec. in respect of Debentures to be provided out of profits.

(2) Dividend of 10 per cent declared on the Ordinary Shares for the year less tax at 10s.

(3) Write off 10 per cent of Plant Account to Depreciation Account.

(4) Separate Banking Account to be opened for the Dividend.

(*Civil Service.*)

36. Prepare a Balance Sheet of Black, Kelly & Co., Ltd., on 31st March, from following figures—

Freehold Land and Buildings, £30,000; Stock on hand, £12,000; Nominal Capital, £100 000.

Issued Capital—50,000 6 per cent Cumulative Preference Shares of £1 fully paid, £50,000; 10,000 Ordinary Shares of £5, £2 called up, £20,000; Plant and Machinery, £14,000; Mortgage Debentures, £10,000; Additions to Plant, £1,000; Sundry Debtors, £15,000; Cash in hand, £100; Cash at bank, £1,500; Creditors on Open Accounts and Bills Payable (including £35 unclaimed dividends); £4,500; Balance in bank (Dividend Account), £35; Reserve Fund, £500; Bills Receivable, £1,000; Insurance in Advance, £50. Amount owing on First Call Account, £100. Profit and Loss A/c—

	£
Debit Balance from last year	625
Loss this year	9,590

(*Civil Service.*)

37. The following are the Balances extracted from the books of the Ideal Newspaper Co., Ltd., on 31st Dec., from which you are required to prepare Revenue Account and Balance Sheet; Nominal Capital, £100,000, divided into 40,000 Preference Shares of £1 each, and 60,000 Ordinary Shares of £1 each.

	£		£
Issued—40,000 Cumulative Preference Shares of £1 each, 7s. 6d. paid	15,000	Additions to Plant and Machinery, made on 30th June	980
Issued — 60,000 Ordinary Shares of £1 each, 5s. called up	15,000	Stock, 1st Jan.	1,750
Calls in advance	150	Investments at cost	6,340
Calls in arrear	75	Profit and Loss A/c, 1st Jan. *Cr.*	7,320
Freehold Property, 1st Jan.	28,000	Motor-cars, Vans, etc., 1st Jan.	845
Plant and Machinery, 1st Jan.	9,500	Motor-cars, Vans, etc., additions made on 30th June	90
Sundry Creditors	7,300	Purchases of Paper	8,250
Returns and unsolds	2,650	Purchases of Ink	475
Reserve, 1st Jan.	10,000	Salaries	9,230
Dividends accrued on Investments	300	Wages	1,000
Cash in hand	130	Trade Charges	7,860
Liverpool Banking Co., Ltd.	5,295	Correspondence	4,365
Sales (cash and credit)	22,650	Discounts Allowed	855
Advertisements *Cr.*	19,090	Commission	380
Debtors	5,800	Printing and Stationery	110
Linotype Installation, 1st Jan.	1,300	Free Copies	695
Linotype Installation, additions made on 30th June	135	Bad Debts	75
		Bank Interest, Dividends, etc. *Cr.*	130
		Repairs	155

Provision for Wages, £48; Discounts, £350; Bad Debts, £200. Depreciate Freehold Property at the rate of 1 per cent per annum, Plant and Machinery, 7½ per cent per annum; Linotype installation, 10 per cent per annum; Motor-vans, 15 per cent per annum.

The amount received for advertisements includes £180 for advertisements which will not run off until next year. The sales include papers prepaid for next year amounting to £350. Stock-on-hand, 31st Dec., £1,646 15s.

(*U.L.C.I.*)

38. Set out below are the Ledger Balances, as on 31st Dec., of The Sylhet Tea Plantations, Ltd. The nominal capital of the Company consists of 20,000 ordinary shares of £10 each.

There was no Stock on hand on 1st Jan., but at the close of the year (31st Dec.) the tea unsold was valued at £3,854.

The Ledger Balances were as follows—

	£
Share Capital A/c (Issued 16,200 shares of £10 each, fully paid)	162,000
Reserve A/c	5,000
Sundry Creditors	8,851
Bills Payable	8,010
Plantations A/c (Land in Sylhet and Buildings thereon)	184,000
Bank Overdraft	1,870
Sundry Debtors	8,400
Machinery and Plant A/c	3,700
Profit and Loss A/c (undistributed balance as on 1st Jan.)	10,500
Dividend paid on 30th June	8,100
Wages (Europeans)	4,400
Wages (Natives)	9,527
Crop Expenses A/c	3,200
Manufacturing Expenses A/c	2,480

	£
Boxes Purchased (the whole to be written off during the year)	672
Rent and Taxes	543
Machinery Repairs	423
General Charges	331
Hospital Expenses	1,565
Marine Insurance	248
Fire Insurance	120
Law Charges	32
Directors' Fees	350
London Office A/c (Salaries and Expenses)	1,021
Auditor's Fee	52
Freight Charges	2,035
Managers' Commission	1,030
Tea Sales	37,860
Calcutta Agency Expenses	1,745
Transfer Fees Received	5
Cash in hand	122

Before closing the books the following adjustments are necessary—

(i) Make a provision of 5 per cent for Bad and Doubtful Debts.

(ii) Provide for depreciation on Machinery and Plant at the rate of 10 per cent, the original cost of which, less sales, was £5,560.

Prepare a Profit and Loss Account for the year ended 31st December. Carry £3,000 to the Reserve Account, and prepare a Balance Sheet.

39. The Excelsior Manufacturing and Trading Co., Ltd., has a Capital of £80,000 divided into 60,000 Ordinary Shares of £1 each, 10s. per share called and 20,000 6 per cent Preference Shares of £1 each fully paid.

The following is the Trial Balance at 31st December—

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Ordinary Share Capital				29,980	–	–
Preference Share Capital				20,000	–	–
Cash in hand	217	11	4			
Cash at Bank	5,650	16	8			
Sales and Purchases	26,120	5	3	52,750	17	5
Returns Out and In	850	14	10	420	10	2
Stock, 1st Jan.	12,200	12	1			
Land and Buildings	11,700	–	–			
Manufacturing Expenses	2,400	7	8			
Machinery and Plant	13,500	–	–			
Creditors and Debtors	26,260	7	2	10,460	8	10
Discounts Received and Allowed	375	3	8	627	2	9
Patents	2,475	–	–			
Rates, Taxes, and Insurance	1,224	8	3			
Calls in Advance and Arrear	30	–	–	50	–	–
Profit and Loss A/c (balance 1st Jan.)				720	15	5
Travellers' Commission and Expenses	1,050	2	1			
Bad Debts Provision, 1st Jan.				1,030	10	4
Carried forward	£104,055	9	–	£116,040	4	11

	£	s.	d.	£	s.	d.
Brought forward	£104,055	9	–	£116,040	4	11
Bad Debts	820	10	2			
Salaries	1,265	9	6			
General Expenses	357	1	2			
Interim Ordinary Share Dividend	850	–	–			
,, Preference ,, ,,	600	–	–			
Transfer Fees				15	2	6
Reserve Fund				4,850	–	–
Depreciation	2,075	–	–			
Manufacturing Wages	10,740	4	3			
Forfeited Shares (40 of £1 5s. paid)				10	–	–
National Insurance Stamps	151	13	4			
	£120,915	7	5	£120,915	7	5

Depreciation has been dealt with. Make a Bad Debts Provision of 5 per cent. Provide £250 for Directors' Fees. Transfer £1,000 to the Reserve Fund. The National Insurance Stamps Account represents the purchase of 100 sevenpenny stamps per week for the year. Only 3d. of each 7d. has, however, to be borne by the Company, the other 4d. being recoverable by law from the insured employees. Fourpence per week per man has been deducted from the Wages of 90 workmen and from the Salaries of 10 of the Office staff, but no adjustment has been made in the books. Prepare Trading and Profit and Loss Accounts for the year ended 31st Dec., 19.., and a Balance Sheet as at that date. The Stock at 31st Dec. was £12,720 4s. 6d.

Liquidation

12th Dec. 13

CHAPTER XXI

LIQUIDATION

THE machinery of bankruptcy was set up for individuals and partnerships as explained in the previous chapter.

The parallel for the winding-up of limited liability companies is liquidation, winding-up and liquidation being synonymous terms, and the accounting is somewhat similar.

The main points of difference are—

1. There are three parties concerned in liquidation: (*a*) the company—which by law is a separate entity, (*b*) the creditors, and (*c*) the shareholders, who in the winding up are referred to as contributories.

2. There are three forms of liquidation—

(*a*) **Voluntary** (members or creditors, according to whether the company is solvent or insolvent).

The main difference between these two types of voluntary liquidation can best be explained as follows.

The winding-up of a company does not, of course, indicate inability to meet its liabilities. A tin mining company may find after a period that the mine is exhausted, or an event may happen upon the happening of which the Articles of Association stipulate that the company is to be wound-up. In these and similar cases, if the directors, or a majority of the Board, make a statutory declaration that, in their opinion, the company will be able to pay its debts in full within twelve months of the commencement of the liquidation, it is a Members' Voluntary Liquidation.

Failing this, it is a Creditors' Voluntary Liquidation and they then have the right to be consulted in the appointment of the liquidator and to appoint from among themselves persons to act on the Committee of Inspection to control the liquidator.

(*b*) **Liquidation supervised by the Court.**

(*c*) **Compulsory liquidation.**

3. Bankruptcy always indicates insolvency. Liquidation may not indicate this as the winding-up may be for quite a different purpose.

4. Separate Statements of Affairs must be prepared as regards creditors and contributories.

5. The balances of the Statement of Affairs as regards creditors and the Deficiency Account are transferred to the Statement of Affairs as regards contributories.

6. A limited company may have issued debentures giving a floating charge, a position impossible in the case of an individual.

7. The Deficiency Account contains details of (i) expenses, divided into those paid and unpaid, (ii) director' fees, (iii) dividends

paid (whereas in bankruptcy such account merely contains the net loss or profit) and the period covered is three years prior to the winding-up order, or from the formation of the company if it has not been in existence for three years. On the other hand, the Deficiency Account in bankruptcy commences at a date twelve months prior to the receiving order, unless the Official Receiver otherwise orders.

The principal forms required by the Companies (Forms) Order, 1949, in the case of a compulsory winding-up, illustrations of which are set out in the following pages, are as follows—

1. Statement of Affairs.
2. Deficiency or Surplus Account (List "F")—where winding-up order made within three years of the formation of the company.
3. Lists "A" to "E" containing details of assets and liabilities in support of the Statement of Affairs (not illustrated).

One further point should be considered before passing to the accounts.

Debenture-holders are secured creditors and if their security is in jeopardy they have some right of action. Generally speaking, this arises when interest payments are in arrears, and as individual debenture-holders could not act, a Trustee is appointed to protect their interests. Following such an appointment, the company may overcome what proved to be only temporary financial difficulties, making it possible for the debenture-holders to release the Trustees and leave the control of the company once more in the hands of the directors. From this it will be seen that the appointment of a receiver by the debenture-holders does not mean that liquidation will follow.

THE PREPARATION OF A STATEMENT OF AFFAIRS IN COMPULSORY LIQUIDATION

This must be prepared and submitted to the Official Receiver within fourteen days from the date of the winding-up order, or of the appointment of a Provisional Liquidator, by the directors or secretary or other chief officer of the company.

Example 1. On 1st April, 1950, a compulsory order for winding-up was made against Youngs, Ltd., the following particulars being disclosed—

			(Estimated to Produce)
	£	£	£
Cash in hand		5	5
Debtors		200	180
Land and Buildings		3,000	2,400
Fixtures		1,000	1,000
Unsecured Creditors	1,000		
Debentures—			
Fixed (secured on Land and Buildings)	2,100		
Floating	500		
Preferential Creditors	300		
Share Capital (£1 fully paid)	16,000		

Estimated liability for bills discounted £300, estimated to rank at £300. Other contingent liabilities £600, estimated to rank at £600.

The company was formed on the 1st October, 1948, and has made losses of £15,695.

Prepare Statement of Affairs and Deficiency Account.

The rough Balance Sheet is—

	£		£
Share Capital	16,000	Assets (as question)	4,205
Creditors	3,900	Profit and Loss Account	15,695
	£19,900		£19,900

The items of £300 and £600 would appear as footnotes in the Balance Sheet of the company, and when brought into the statements will require Double Entry.

YOUNGS LIMITED. (IN LIQUIDATION)

STATEMENT AS AT 1ST APRIL, 1950, SHOWING ASSETS AT ESTIMATED REALIZABLE VALUES AND LIABILITIES EXPECTED TO RANK

	Estimated Realizable Values
	£
Assets not specifically pledged—	
Balance at Bank	—
Cash in hand	5
Marketable Securities	—
Bills Receivable	—
Trade Debtors	180
Loans and Advances	—
Unpaid Calls	—
Stock-in-Trade	—
Work-in-Progress	—
Freehold Property	—
Leasehold Property	—
Plant and Machinery	—
Furniture, Fittings, Utensils, etc.	1,000
Patents, Trade Marks, etc.	—
Investments other than Marketable Securities	—
Other Property, etc.—	—

Assets specifically pledged	(a) Estimated Realizable Values	(b) Due to Secured Creditors	(c) Deficiency Ranking as Unsecured	Surplus Carried to Last Column
	£	£	£	£
Freehold Property	2,400	2,100	—	300

Estimated surplus from Assets specifically pledged	300
Estimated Total Assets available for Preferential Creditors, Debenture Holders secured by a Floating Charge, and Unsecured Creditors (carried forward to next page) £	1,485

			Estimated Realizable Values £
	Bt. forward		1,485
	Summary of Gross Assets	£	
	Gross realizable value of Assets specifically pledged	2,400	
	Other Assets	1,185	
	Gross Assets	£3,585	

(e) Gross Liabilities £	*Liabilities* (to be deducted from surplus or added to deficiency as the case may be)		
	Secured Creditors to extent to which claims are estimated to be covered by Assets specifically pledged (item (a) or (b) whichever is the less).		
2,100	[Insert in "Gross Liabilities" column only.]		
300	*Preferential Creditors*		300
	Estimated balance of assets available for Debenture Holders secured by a floating charge and Unsecured Creditors		1,185
500	*Debenture Holders* secured by a floating charge		500
	Estimated *Surplus/Deficiency* as regards Debenture Holders		685
	Unsecured Creditors—	£	
	Estimated unsecured balance of claims of Creditors partly secured on specific assets, brought from (c)	—	
1,000	Trade Accounts	1,000	
	Bills Payable	—	
	Outstanding Expenses	—	
600	Contingent liabilities: Legal costs	600	
300	Bills discounted	300	1,900
	Estimated Deficiency as regards Creditors being the difference between:	£	
	Gross Assets (d)	3,585	
£4,800	and *Gross Liabilities* (e)	4,800	1,215
	Issued and Called-up Capital— 16,000 shares of £1 each		16,000
	Estimated Deficiency as regards Members		£17,215

The question of debenture interest has been ignored in the above illustration, but the rule in reference thereto is that debenture interest is payable up to and including the date of repayment of the debenture *in the case of a company which is* SOLVENT, otherwise interest ceases at the commencement of the liquidation.

SETTLING THE LIST OF CONTRIBUTORIES

The operation of the principle of limited liability on the part of a shareholder is seen clearly when a company whose shares are only partly paid goes into liquidation.

Uncalled capital may be called up by the liquidator for the purpose of paying the creditors. The sale of partly-paid shares does not relieve the seller from his liability to pay the remaining calls for twelve months if the money cannot be collected from the person to whom he sold them. This is the reason for having the "A" and "B" lists, the "B" contributories being those contributories who have ceased to be members within one year from the date of the commencement of the liquidation, while the "A" list gives the present members.

Example 2. In a liquidation which commenced on 1st February, 1950, the unsecured creditors were £13,000.

The following are the material details of the contributories appearing on the "B" list—

	No. of Shares	Date of Ceasing to be Member	Creditors Outstanding at Date of Ceasing to be Member
			£
A	1,000	1st August, 1949	500
B	1,500	1st September, 1949	750
C	300	1st October, 1949	800
D	200	15th December, 1949	950

The above creditors had received no payment at the date of the liquidation.

The shares are of £1 each, 12s. paid.

Assuming that the contributories on the "A" list completely default, and that the liquidator realizes a further £1,148 6s. 8d., show the amount of the dividend to the unsecured creditors. Ignore expenses, costs, and remuneration of the liquidator.

The "B" contributories duly fulfil their obligations.

STATEMENT OF LIABILITY OF "B" CONTRIBUTORIES

Creditors Outstanding	A				B				C				D				Cash		
	Shares	£	s.	d.	Shares	£	s.	d.	Shares	£	s.	d.	Shares	£	s.	d.	£	s.	d.
	1,000				1,500				300				200						
(1) . . £500	(a)	166	13	4		250	–	–		50	–	–		33	6	8	500	–	–
(2) . . 250						187	10	–		37	10	–		25	–	–	250	–	–
(3) . . 50										30	–	–		20	–	–	50	–	–
(4) . . 150	(b)													1	13	4	1	13	4
Total . £950																£	801	13	4

Notes. (*a*) The liability in each case is in proportion to the shareholding as at the date of ceasing to be members in respect of debts outstanding on that date, e.g. in (*a*) the liability of each "B" contributory is $\frac{10}{30}$; $\frac{15}{30}$; $\frac{3}{30}$; and $\frac{2}{30}$ of £500.

(*b*) Although the amount required to be contributed solely by D appears to be £150 (the others not being liable because they were not members at the 15th December, 1939, the date of the extra £150 outstanding) yet the sum claimable from him is £1 13s. 4d., inasmuch as his maximum liability to the company is £80, being 8s. in the £ on 200 shares; and having already contributed £78 6s. 8d. [items 1, 2, and 3] he can be called upon to pay only £1 13s. 4d.

It may be noted that C's maximum liability is 8s. in the £ on 300 shares, viz. £120, so that whatever be the amount of the creditors in item 3, the liquidator could have claimed from C only £32 10s., i.e. £120 less already contributed £87 10s. [items 1 and 2].

The cash received into the *general* funds of the company is £801 13s. 4d., which together with £1,148 6s. 8d. makes £1,950 available for unsecured creditors of £13,000, i.e. 3s. in £.

LIQUIDATOR'S CASH ACCOUNT

The preparation of a Liquidator's Cash Account calls for no detailed explanation, but the following matters require the attention of the student—

(1) There is no double entry required.

(2) The sequence of items should correspond with that of the official form.

(3) The rights of various classes of shareholders (particularly if there is a surplus) require careful consideration.

(4) The calculation of the remuneration.

(5) The form of cash book for liquidations differs from that required for bankruptcies. (A statement of the receipts and payments must be furnished by a trustee in bankruptcy.)

The main outlines of the forms are given below, so that point (4) only requires further explanation.

As to (4) the remuneration is fixed upon a double basis, viz. upon receipts by the liquidator and upon dividends. There is little difficulty in regard to the former, but the latter requires care because the liquidator (or trustee) obtains the sum upon the amount PAID, so that if there is insufficient to pay the creditors in full and the liquidator, both must suffer abatement.

Example 3. A liquidator has £11,220 to pay £20,000 creditors. After he has received his commission on collections, he is entitled to a further 2 per cent on dividends paid.

If he pays £100 he receives £2, thus absorbing £102.

Hence he receives $\frac{2}{102} \times$ £11,220 = £220, leaving £11,000 for distribution.

Example 4. The following are the balances of X, Ltd., which decides to wind up voluntarily on 1st January, 19..

BALANCE SHEET

Liabilities	£	Assets	£	Estimated to Produce £
Share Capital (£1 fully paid)	2,000	Cash	60	
Creditors	4,900	Stock	1,700	1,680
		Debtors	4,790	4,495
		Profit and Loss Account	350	
	£6,900		£6,900	

Creditors include preferential creditors £210.

The liquidator's remuneration is to be 4 per cent on amounts collected and 2 per cent on dividends paid to unsecured creditors. Liquidation expenses are £40. Show Liquidator's Cash Account (calculate to nearest £).

STATEMENT OF AFFAIRS AND DEFICIENCY ACCOUNT

The prescribed form for the Statement of Affairs is shown on pages 913 and 914, and the Deficiency Account is as set out on page 918.

LIQUIDATOR'S CASH ACCOUNT

Dr. Receipts	£	£	*Cr.* Payments	£	£
To Balance		60	By Law Costs	?	
,, Sale of Assets—			,, Auctioneer's Charges	?	
Stock	1 680		,, Incidental Expenses	?	40
Debtors	4,495	6,175	,, Liquidator's Remuneration—		
			4% on Amounts Collected	247	
			2% on Dividends to Unsecured Creditors[1]	98	345
			,, Preferential Creditors		210
			,, Dividend of 20s. in £ to Unsecured Creditors		4,690
			,, Return to Contributories— 9s. 6d. in £ on 2,000 Shares of £1 each, fully paid		950
		£6,235			£6,235

[1] Where there is insufficient cash left to pay the unsecured creditors in *full*, the calculation will be not 2 per cent thereof, but $\frac{2}{102}$, e.g. assuming the unsecured creditors to be £4,690 and after all obligations have been discharged (save that of the Liquidator's "Dividend" Remuneration of 2 per cent), there is a cash balance of £2,870 5s. 7d., the respective payments to the liquidator and unsecured creditors will be—

Liquidator . . $\frac{2}{102} \times$ £2,870·28 = £56 5s. 7d.

Unsecured creditors $\frac{100}{102} \times$ £2,870·28 = £2,814

The liquidator thus receives 2 per cent of £2,814

STATEMENT OF AFFAIRS—LIST "F"

List "F"—Deficiency or Surplus Account

The period covered by this Account must commence on a date not less than three years before the appointment of the Receiver or, if the company has not been incorporated for the whole of that period, the date of formation of the company, unless the Receiver otherwise agrees.

			£
Items Contributing to Deficiency (or Reducing Surplus):			
1. Excess (if any) of Capital and Liabilities over Assets on the ....19...... as shown by Balance Sheet (copy annexed)			
2. Net dividends and bonuses declared during the period from ....19...... to the date of the Statement . .			
3. Net trading losses (after charging items shown in note below) for the same period			
4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars or annex schedule)			
5. Estimated losses now written off or for which provision has been made for the purpose of preparing the Statement (give particulars or annex schedule)			
6. Other items contributing to Deficiency or reducing Surplus:			
....			
Items Reducing Deficiency (or Contributing to Surplus):	£		£
7. Excess (if any) of Assets over Capital and Liabilities on the ....19...... as shown on the Balance Sheet (copy annexed) . . .			
8. Net trading profits (after charging items shown in note below) for the period from the .... 19...... to the date of the Statement. . .			
9. Profits and income other than trading profits during the same period (give particulars or annex schedule)			
10. Other items reducing Deficiency or contributing to Surplus:			
....			
Deficiency/Surplus as shown by Statement. . .			£

Note as to Net Trading Profits and Losses:

Particulars are to be inserted here (so far as applicable) of the items mentioned below, which are to be taken into account in arriving at the amount of net trading profits or losses shown in this Account—

	£
Provisions for depreciation, renewals, or diminution in value of fixed assets	
Charges for United Kingdom income tax and other United Kingdom taxation on profits . . .	
Interest on debentures and other fixed loans . .	
Payments to directors made by the company and required by law to be disclosed in the accounts .	
....	
Less: Exceptional or non-recurring receipts—	
....	
Balance, being other trading profits or losses . .	
Net trading profits or 'osses as shown in Deficiency or Surplus Account above . . .	£

Signature   Dated   19 ,

QUESTIONS

1. What do you understand by the term "liquidation"?

2. There are three accounts prepared in liquidation as compared with two in bankruptcy. Why is this necessary?

3. Up to what date is debenture interest payable in liquidation?

4. What do you understand by the "A" and "B" list of contributories?

5. State briefly the statutory forms required in compulsory liquidation.

6. What are the differences between the Deficiency Account in bankruptcy and that in compulsory liquidation?

EXERCISE XXI

1. The Express Parcels Service Co., Ltd., went into voluntary liquidation on 29th February, 19... From the following particulars prepare a Statement of Affairs to be submitted to meetings of creditors and contributories. The authorized share capital which had been fully subscribed consisted of 10,000 7 per cent Cumulative Preference Shares of £1 each and 5,000 Ordinary Shares of £1 each. The dividend on the Preference Shares had not been paid in the previous year. The assets and liabilities were as under—

	Book Value	*Estimated Value*
	£	£
Land and Buildings	4,500	3,000
Motor Vans	5,650	3,200
Machines and Tools	1,200	500
Furniture and Fittings	975	325
Stores and Spares	1,460	810
Debtors—Good	600	600
Doubtful	500	300
Bad	150	
Bank Overdraft (secured by deposit of the deeds of Land and Buildings)		3,250
Unsecured Creditors		6,130
Preferential Creditors		80
		(C.I.S.)

2. Prepare the Statement of Affairs of Unsound, Ltd., which has just passed a Resolution for Voluntary Liquidation. The books disclose the following balances—

	£
Goodwill	5,000
Freehold Property	45,600
Plant and Machinery	8,800
Fixtures and Fittings	750
Investments	500
Bank Overdraft (unsecured)	270
Cash in hand	10
Book Debts	5,730
Stock-in-Trade	2,020
Mortgage of Freehold Property	20,000
Interest accrued thereon	500
Authorized and Issued Capital—	
5,000 Preference Shares of £1 each	5,000
5,000 Ordinary Shares of £1 each	5,000
Unsecured Trade Creditors	59,100
Preferential Creditors	710

It is estimated that the Assets will produce the following sums—

	£
Goodwill	nil
Freehold Property— The amount shown by the books.	
Plant and Machinery	2,070
Fixtures and Fittings	290
Investments	510
Book Debts—	
Good	3,440
Bad and Doubtful	860
Stock-in-Trade	1,250

(*Institute of Book-keepers.*)

3. Preston & Co., Limited, went into voluntary liquidation on the 1st January, 19.., the Balance Sheet being as follows—

Liabilities		£	*Assets*	£
Capital—			Land and Buildings	2,500
Authorized and Issued—			Plant and Machinery	3,125
5,000 Ordinary Shares of £1 each fully paid		5,000	Stock-in-Trade	2,875
Sundry Creditors—	£		Sundry Debtors	2,598
Preferential	433		Cash at Bank	87
Unsecured	8,626		Profit and Loss Account	2,874
		9,059		
		£14,059		£14,059

The Liquidator's remuneration was fixed at 3 per cent on the amount realized by him and 2 per cent on the amount distributed to the unsecured creditors. The Liquidator realized the assets as follows—

	£
Land and Buildings	2,128
Plant and Machinery	1,824
Stock-in-Trade	1,457
Sundry Debtors	2,186

The expenses of the liquidation amounted to £94, the preferential creditors were repaid in full, and a first and final dividend was paid to the unsecured creditors.

You are required to prepare the liquidator's Final Account. (*C.C.S.*)

4. A company went into voluntary liquidation on 30th June, 19.., when the liabilities were as follows—

	£
5 per cent Debentures giving a floating charge over all assets	10,000
Unsecured Creditors	6,750
Preferential Creditors	370

Interest on the Debentures had been paid to previous 31st March.

The assets (apart from the cash in hand at the commencement of the liquidation, £50) realized as follows—

	£
Stock	5,650
Book Debts	9,850
Plant, etc.	1,250

The Debenture liability was discharged on 30th September, 19.., and a first and final dividend distributed, the costs of the liquidation being £486 18s. 9d.

Prepare the Liquidator's Final Account, showing the dividend distributed, assuming that his remuneration had been fixed at 3 per cent on the amount realized, and 2½ per cent on the amount distributed to unsecured creditors. (*R.S.A.*)

5. Frederick Ayling files his petition in bankruptcy. His assets include his freehold house, valued at £1,600. The house originally cost £2,000, of which sum he had borrowed £1,200 on first mortgage and £500 on second charge. Both mortgages are still outstanding in full.

Set out the entries appearing in Ayling's Statement of Affairs, arising out of the above information. Assume that interest on the mortgages has been fully paid. *(Institute of Book-keepers.)*

6. The position of S. Broke on 1st April was as under: Business Premises, £1,000, estimated to realize £800; Fixtures and Fittings, £150, estimated to realize, £50; Stock, £1,600, estimated to realize, £800; Book Debts, £450, estimated to realize £380. There was a Mortgage on the business premises of £900. Other Creditors amounted to £2,200, of whom £200 were Preferential. A year previously his Capital was £800, the Net Profit for the year was £40, and his Drawings amounted to £740. Prepare Statement of Affairs and Deficiency Account for submission to his Creditors. *(U.L.C.I.)*

7. From the following particulars prepare the Balance Sheet of the business of James Gibson as on 1st July, 19.., and, in view of a Receiving Order having been made against him, also a Statement of Affairs. Sundry Creditors £1,242 2s. 9d. Owing £1,000 to bank, who hold a second mortgage of premises. Cash, £17 2s. 9d. Premises valued in books at £2,500 (subject to first mortgage of £1,750), estimated to realize £2,400. Stock, book value, £725, estimated to produce £420. Sundry Debtors, £650, of which £200 was estimated to be good, £150 doubtful, estimated to produce £100. Goodwill, £800, estimated to produce nil. Fixtures and Fittings, £300, estimated to produce on a sale £125. Gibson had no assets outside his business except his household furniture, which was estimated to be worth £100. He had guaranteed a loan for a friend, and expected to have to find £30 in respect of it.

Note. A Deficiency Account is not required. *(Faculty of Teachers in Commerce.)*

8. A Receiving Order in Bankruptcy was made against William Gimblett on 15th January, 19... The following are the particulars as to his position: Owing to Bank £3,860 secured by the deposit of deeds of freehold property valued at £4,000, Unsecured Creditors £3,720, Preferential Creditors for rent, etc., £90, Loan by relative £300, who held shares belonging to Bankrupt worth £250. B/R discounted £150, Policy of Assurance in Mortgage to Company for £350 had a surrender value of £500, Bankrupt's loan to a friend secured by P/N £200, Household furniture, half of which belonged to his wife, was valued at £300, Book debts, £1,420, of which £240 was bad and £120 doubtful, estimated to produce £60. Prepare Statement of Affairs and calculate the probable dividend (to the nearest penny) after charging £120 for the expenses of the Bankruptcy. *(Faculty of Teachers in Commerce.)*

9. On the 1st April, 1949, Motoroil, Ltd., owed £10,000 5 per cent Debentures. Under powers in the Debenture Trust Deed the Directors purchase for immediate cancellation debentures on the following dates—

1st June, 1949, £3,000 at 98.
1st September, 1949, £2,000 at 100½.

Show the necessary Ledger Accounts to record the above transactions.

10. Brown, Jones, and Smith are a firm of builders and contractors. Each partner receives a salary at the rate of £500 per annum, and interest is calculated on Capital Accounts, Current Accounts, and drawings at the rate of 5 per cent per annum, the balance of profit being shared in the proportions: Brown, 7; Jones, 5; and Smith, 3. Drawings are made monthly, and for the purpose of calculating interest they may be assumed to be made evenly throughout the year.

The firm keeps a Contracts Ledger, containing accounts to which all direct costs are charged, and a Personal Ledger to which all receipts are credited: on the completion of each contract the agreed price is debited to the Personal Account and credited to the Contract Account in question.

A certain number of houses are built on the firm's own account and subsequently sold or let. During construction such houses appear in the Contracts Ledger and on the completion of each the total cost, with an estimated addition to cover overhead expenses, is transferred to an account in a Property Ledger till sold.

The following Trial Balance was extracted from the firm's books as on 30th September, 1948—

TRIAL BALANCE

	Dr.	Cr.
	£	£
Capital Accounts, 30/9/47		
Brown		18,000
Jones		10,000
Smith		8,000
Current Accounts, 30/9/47—		
Brown		620
Jones	60	
Smith		40
Drawings (including partnership salaries)—		
Brown	2,500	
Jones	1,420	
Smith	1,260	
Contracts Ledger—		
Contracts in Hand	27,513	
Profit on contracts completed		3,807
Personal Ledger—		
Accounts in respect of contracts completed	1,973	
Receipts on Account of Work in Progress		21,450
Property Ledger—		
Properties in Hand	17,250	
Profit on Properties Sold		670
Rents Receivable		825
Debtors for Rents	117	
Mortgages		11,500
Mortgage Interest	518	
Workshop, Yard, and Office Expenses, not directly apportioned to contracts—		
Rent and Rates	1,850	
Salaries and Wages	1,305	
Heat, Light, and Power	618	
Stationery, Telephone, etc.	76	
Sundries	232	
Tools and Plant	18,500	
Stores and Materials on Hand	5,033	
Profit on Sale of Materials		109
Amount charged to Contracts Ledger for overheads in respect of contracts completed		1,525
Repairs and Insurance in respect of Properties in Hand	65	
Sundry Creditors		1,544
Bank Overdraft		2,407
Bank Interest	179	
Cash in Hand	28	
	£80,497	£80,497

Prepare final accounts in respect of the year ended 30th September, 1948, taking into account the following instructions—

(*a*) The amount to be charged to Work in Progress on account of overhead expenses is £2,220.

(*b*) £500 is to be taken credit for as profit on contracts not yet completed.

(*c*) Income-tax is to be ignored.

11. The Asta Co., Ltd., decided to reduce its capital, and reorganize as at the 30th June, 19...

The following is the Balance Sheet as at the 30th June.

Liabilities	£	*Assets*	£
20,000 Ordinary Shares of £1 each, fully paid	20,000	Land and Buildings	18,000
15,000 7 per cent Preference Shares of £1 each, fully paid	15,000	Plant and Machinery	7,000
£10,000 4 per cent Mortgage Debenture Stock	10,000	Stock on Hand	9,000
Reserve Account	7,000	Sundry Debtors	19,000
Sundry Trade Creditors	20,000	Profit and Loss Account	19,000
	£72,000		£72,000

The Court and the Debenture Holders agreed to the Company reducing its Capital on the above date, the following being the particulars of the scheme—

(*a*) The Ordinary Shares to be reduced to 7s. 6d. each, fully paid.

(*b*) The Preference Shares to be reduced to 10s. each, fully paid.

(*c*) Each £1 of Mortgage Debenture Stock to be exchanged for one Preference Share of 10s. each and for 10s. of new Debenture Stock bearing 5 per cent interest.

(*d*) The reduction of capital and the reserves are to be applied in writing off the adverse balance of Profit and Loss Account and the balance, if any, in writing down the Land and Buildings.

Show the Balance Sheet as it would appear after the above reorganization has taken place. (*C.C.S.*)

12. The issued capital of a limited company was £650,000, consisting of 400,000 Ordinary Shares of £1 each and 250,000 6 per cent Preference Shares of £1 each—all fully paid. The sum standing to the credit of the Profit and Loss Account on 31st December, 19.., was £136,750.

It was decided—

(*a*) To transfer £15,000 to General Reserve Account, making that Account £50,000.

(*b*) To pay a half-year's dividend on the Preference Shares—an interim dividend of 3 per cent having been paid and debited against the Profit and Loss Account before arriving at the above-mentioned balance of £136,750.

(*c*) To transfer £10,000 to an Employees Pension Fund and to invest that amount in a trustee security.

(*d*) To pay a 20 per cent dividend, free of income-tax, on the Ordinary Shares.

(*e*) In addition to pay a dividend on the Ordinary Shares in the form of one £1 share, taken at a price of £2 for every 50 shares held.

You are required to give effect to the above, assuming that the necessary resolutions were passed, and that the amount set aside for Employees Pension Fund was used to purchase £9,000 3½ per cent War Loan. (*R.S.A.*)

Ledger accounts are not required.

13. A limited company's Balance Sheet on 31st March, 1949, was as follows—

	£		£
Issued Capital—		Sundry Assets	77,000
50,000 Ordinary Shares of £1 each, fully paid .	50,000	Cash	17,000
20,000 6 per cent Redeemable Preference Shares of £1 each, fully paid .	20,000		
Sundry Liabilities . .	12,000		
Profit and Loss Account .	12,000		
	£94,000		£94,000

The company has the right to redeem the Preference Shares at any time before 31st December, 1963, at a premium of 5 per cent, and it decided to exercise this right on 31st March, 1949, in respect of the whole issue. To carry the project through the company issued a further 10,000 £1 Ordinary Shares, payable 5s. a share on application on 10th March, and the balance on allotment on 31st March.

Show the entries, in Journal form (including cash items) giving effect to the issue of the additional Ordinary Shares and the redemption of the Preference Shares.

(*W. Riding of Yorkshire.*)

CHAPTER XXII

STOCK EXCHANGE TRANSACTIONS, INVESTMENT ACCOUNTS, TABULAR BOOK-KEEPING

STOCK EXCHANGE TRANSACTIONS

THE Stock Exchange is a specialist institution and the book-keeping, whilst still following double entry rules, is unlike that of any other business. Any student who intends to enter the office of a stockbroker or stockjobber will find it necessary to make a particular study of this branch of accounting.

The purpose of this section is to outline the main features in order that investment accounts may be the more clearly understood.

A **stockbroker** is an agent for the purpose of carrying out instructions received from his clientele, each purchase or sale being executed by him with a stockjobber with the result that, with few exceptions, every transaction is recorded from the point of view of the client and at the same time as a purchase from, or sale to, a jobber. As evidence that the transaction has been carried out, a bought or sold contract note is sent by the broker, to his client, all charges and commission being added to a purchase or deducted from a sale; and it is from this point that each item enters the books of account which may be divided into two main sections—

Ledgers. Impersonal and Private Ledger or Ledgers; Clients Ledgers; Jobbers Ledgers; Brokers Ledger; Investment Ledger (to record the Broker's own investments); Dividends and Rights.

Books of Original Entry. Day Books (not divided into Sales and Purchases as with a commercial business); Cash Book; Journal; Stamps and Fees; Tickets Payable; Tickets Receivable; Contango Journal.

Whether the transaction is a speculation, as the result of which the client hopes to make a quick profit, or a genuine investment, does not affect the entries from the point of view of the broker, and the following example will serve as a general illustration.

Example. Bernard Hartley instructs his broker to purchase 300 Barclays Bank Ltd. "B" shares. The transaction is duly carried out at the price of 68s. 4½d. per share with C. Bowyer, a jobber. Show the Bought Contract Note and the entries in the books of the broker,

CONTRACT NOTE

NAME OF BROKER

ADDRESS
LONDON, E.C.2.

14th January, 19. .

To *Bernard Hartley, Esq.*

We have this day BOUGHT as per your Order, for settlement in Cash—subject to the Rules, Regulations, and Customs of the London Stock Exchange.

		£ s. d.	£ s. d.
300 *B Shares* *Barclays Bank, Ltd.*	PRICE @ 68*s.* 4½*d.*	1,025 12 6	
	BROKERAGE 7½*d. per share*	9 7 6	
	CONTRACT STAMP	3 –	
	TRANSFER STAMP AND FEE	10 12 6	
			1,045 15 6

Of *C. Bowyer.*

3s.
CONTRACT
NOTE

(Signature of Broker)

Member of the Stock Exchange,
London, E.C.

E. & O.E.

DAY BOOK

1 *Dr.* *Cr.* 1

Date	Particulars	Fo.	Seller	£ s. d.	Cont. Stp. £ s. d.	Stps. & Fees £ s. d.	Commn. £ s. d.	Buyer	Fo.	£ s. d.
	300 Barclays Bank "B" .	21	C. Bowyer. . .	1,025 12 6	3 –	10 12 6	9 7 6	Bernard Hartley . .		1,045 15 6

NOTE 1. Posted *Dr.* to *Cr.* and *Cr.* to *Dr.*
NOTE 2. Entries are made in this book from counterfoils of the Contract notes.

JOBBERS LEDGER

21 *Dr.* *C. Bowyer* *Cr.* 21

Date	Barclays Bank B					Price	Fo.	£ s. d.	Date	Barclays Bank B					Price	Fo.	£ s. d.
	300					68/4½	T.P. 61	1,025 12 6		300					68/4½	D.B.1	1,025 12 6

NOTE 1. Had the transaction been a sale the debit entry would be made from the Day Book, and the credit entry from the Tickets Receivable Book.
NOTE 2. It does not follow that the ticket passed will be at the same price as that at which the transaction was done. If the price is different the amount by which the two sides disagree will be paid to or received from the Jobber as a "difference" on settlement. The amount will, of course, be recovered when the transfer is paid for.

51 *Dr.* CLIENTS LEDGER *Cr.* 51

Date		Price	Fo.	£ s. d.	Date		Price	Fo.	£ s. d.
	To 300 Barclays Bank "B" shares .	68/4½	D.B.1	1,045 15 6		By Cash			1,045 15 6

61 *Dr.* TICKETS PAYABLE *Cr.* 61

Date	No.	Stock or Shares	To whom Paid	Stamp	£ s. d.	Date	No.	Stock or Shares	To whom Given	Stamp	£ s. d.
	28	300 Barclays B .	C. Bowyer . .	10 10 –	1,025 12 6		28	300 Barclays B .	C. Bowyer . .	10 10 –	1,025 12 6

This side is entered from the tickets received on the transfers at the time of delivery.

This side is entered from the counterfoils of the tickets or "names" issued.

Dr. CASH BOOK *Cr.*

Date	Name		£ s. d.	Date	Name		£ s. d.
	Bernard Hartley		1,045 15 6		C. Bowyer		1,036 2 6

In practice separate Cash Books are generally used for receipts and payments.

Had this transaction been a sale by the client the entries would, of course, have been reversed and the item of £10 12s. 6d. for transfer stamps and fees would not have appeared on the Contract Note as these expenses are paid by the buyer. The brokerage and contract stamp would be deducted instead of added and would therefore read—

	£	s.	d.	£	s.	d.
Price @ 68s. 4½d. . .				1,025	12	6
Brokerage 7½d. per share	9	7	6			
Contract Stamp . .		3	–			
				9	10	6
				£1,016	2	–

The transfer stamp is in fact paid for by the selling broker who prepares the transfer, but he is reimbursed when the transfer is delivered to and paid for by the buying broker. On the first page of this chapter it was stated that a stockbroker is an agent who merely carries out orders. It should perhaps be added that in accordance with the rules of the London Stock Exchange he is the principal in all dealings on the market but this merely means that he is liable for all purchases made by him and if his clients are unable to meet their commitments he must take the stock or shares himself and pay for them. Further points in connexion with the Jobbers Ledger and Ticket Books must be considered before passing on to the other books included in the set.

Jobbers Ledger. The somewhat unusual ruling is necessary to enable the clerk responsible to see at a glance when any particular account is closed. Each jobber operates in a group of securities known as a "market" and for every purchase or sale by a broker a ticket must be passed between them with the result that at balancing time—fortnightly under normal conditions—the total number of shares or amount of stock on the one side must be the same as on the other. If, when this is so, the money columns do not agree a cheque will pass for the difference. In the illustration given, one "ticket" or "name" was passed by the broker for the 300 shares and a transfer delivered for this one item. In actual fact the jobber may not be able to deliver in one "lot" and is therefore compelled to split the ticket into two or more smaller numbers. This will not affect the debit entry in the Jobbers Ledger but it will cause additional entries on the debit side of Tickets Payable and that, in its turn, may be the cause of a Journal entry.

Tickets Payable. When a ticket is split the price per share or other unit on the original must always be used on the counterparts so that, errors omitted, the total of the right-hand column on both debit and credit sides of the Ticket Book will be the same when all deliveries have been made, but some variation in the total stamp

duty payable may result. In this case the jobber from whom the original purchase was made is responsible to the buying broker to reimburse him the excess as well as any additional registration fees caused thereby.

Reference to the original Contract Note will show that the transfer stamp duty was £10 10s. and the registration fee 2s. 6d. Had delivery been made in three smaller lots, the stamp duty might have amounted to, say, £11 5s. and, of course, the registration of three transfers would cost 7s. 6d. This difference of £1 will be claimed by the broker from C. Bowyer and this is known as claiming "splits." This will necessitate a Journal entry, to which reference is made under that heading.

The remaining books mentioned in the early part of the chapter will now be considered briefly as they are of special interest only to the person entering this branch of business and it is not considered necessary to illustrate them.

Brokers Ledger. Generally speaking this takes the place of the Jobbers Ledger under certain conditions. There are Stock Exchanges in the major provincial cities and according to their geographical position certain types of shares may have an even more active market than in London. As an instance a broker in London on receiving an order to buy or sell shares in a bicycle manufacturing company may find London a difficult market, and that he can deal to better advantage on the Birmingham Exchange. In this case he will place his order with a broker in Birmingham (Provincial Exchanges do not differentiate between brokers and jobbers) and in consequence the entry will be between the Brokers Ledger and Clients Ledger.

Investment Ledger. This will be dealt with under "Investment Accounts."

Dividends and Rights. The terms have already been dealt with in the chapter on Company Accounts and will therefore be understood. Many weeks must sometimes elapse between the date of a purchase or sale on the Stock Exchange and the eventual registration of the transfer by the buying broker, so that although the purchase was made cum dividend and/or rights, the seller remains on the Register of Members and will therefore receive the dividend warrant or rights from the company. In this case the broker acting for the buyer will claim them from the jobber or broker giving delivery. Entries will be made from the Journal and Cash Book and the headings of the accounts are the names of the securities.

Journal. Three main types of entries are to be found in this book as the result of "splits," dividends and rights, and dealings with the Stock Exchange Clearing House. The first two have been explained above, and the entries can be visualized by the student

without difficulty. The object of a Clearing House is to eliminate a great deal of routine work. A simple illustration will make this clear. Under normal conditions the market in mining shares is very active and in the course of one "account"—a fortnight—many hundreds of transactions may be executed by one broker in one particular share alone and with possibly several jobbers.

Assume the position to be as follows—

ARIZONA COPPER MINES

	No. of Share	*Buyer*	*Seller*
1	250	Jobber A	Client
2	750	do.	do.
3	350	Client	Jobber B
4	500	Jobber B	Client
5	500	do.	do.
6	1,000	Jobber C	do
7	250	Client	Jobber A
8	1,000	do.	do. C

The first and seventh items and the sixth and eighth will cancel out so that the passing of names is not necessary, but in respect of the others the broker will need to pass one ticket for 350 shares and receive tickets for 750, 500, and 500. Not only so but with an active market the 250 shares sold to Jobber A may have changed hands many times in the interim so that if names are being passed this particular one may have to pass from, say, X to P to D to R to A and it is obviously quite unnecessary for it to go by such a circuitous route if arrangements can be made for putting X directly into touch with the selling broker.

This is done by all members sending details of their transactions to the Clearing House, and here all such intermediate parties can be struck out. Where names are not received from or passed to jobbers as a result of the elimination, the jobbers' Ledger Account must be closed by a Journal entry.

Contango Journal. A speculator who instructs his broker to buy securities he does not wish to pay for, or "take up" as it is termed, but in the hope that he will be able to sell at a profit, is a "Bull."

Alternatively a speculator who sells stock or shares he does not possess in the belief that a fall in price is imminent which will enable him to buy back at a lower price before he has to deliver the securities, is known as a "Bear."

If either operator finds he is unable to "close" his speculation before the end of the account when he should take up or deliver the shares or stock, he may ask his broker to defer the settlement until the next Pay Day, and if the broker can arrange it, he is said to "carry-over" the deal.

Contango is the interest charged to a bull operator for the privilege of being allowed to postpone the taking up of the stock from one account to another.

Backwardation is the charge made to a bear operator for the privilege of being allowed to postpone delivery until the following account.

As to whether the bull will have to pay contango, or the bear backwardation depends upon the state of the market.

"Carrying-over" may be defined as a sale or purchase in the old account followed by a re-purchase or re-sale in the new account at prices fixed by the Stock Exchange Committee, called "making up" prices. When this takes place it follows that the ticket does not have to be passed, and in order to close and re-open the accounts in the Jobbers and Clients Ledgers, a Journal entry is necessary and a special Journal is kept for this purpose.

Calculations. A stockbroker must, of course, at all times be prepared to give professional advice to his clients, not only as to the advisability of purchasing securities but in suggesting a change of holdings in order to produce a higher income. This involves the calculation of "yields," and in the case of securities being redeemed on a specified date there will be two calculations—one representing the *flat yield* and the other the *yield on redemption.*

Example 1. A stock which pays a $4\frac{1}{2}$ per cent dividend every year can be bought at $109\frac{7}{8}$ for each £100 stock. Find, *to the nearest penny*, what rate of interest that would be on each £100 invested. (*R.S.A.*)

In this case £$109\frac{7}{8}$ is the cash price of £100 stock, and £100 stock yields an annual income of £$4\frac{1}{2}$.

In other words, £$109\frac{7}{8}$ (cash) must be invested to obtain an income of £$4\frac{1}{2}$. We have to find the income obtained by investing £100 (cash).

And this income is

$$
\begin{aligned}
&£4{\cdot}5 \times \frac{100}{109\frac{7}{8}} \\
&= \frac{£4{\cdot}5 \times 800}{879} \\
&= £4{\cdot}096 \\
&= £4 \text{ 1s. 11d.}
\end{aligned}
$$

App. Ans. = 4.

879)3600(4·095 +
8400
489

Example 2. A 3 per cent stock can be bought for £$98\frac{5}{8}$ for each £100 stock, and a 4 per cent can be bought for £$107\frac{3}{4}$ for each £100 stock. If a man buys £4,000 of the 3 per cent stock and £2,000 of the 4 per cent stock, find, *to the nearest penny*, how much interest he gets, on an average, on each £100 invested. (*R.S.A.*)

Since the man buys £4,000 (stock *not* cash) of 3 per cent stock,

and each £100 of this stock yields £3 income, his total income from this stock is £3 × 40 = £120.

Similarly, his total income from £2,000 (stock *not* cash) of 4 per cent stock is £4 × 20 = £80.

Hence from both investments his total income is £200.

We have next to find the total sum invested, i.e. the total cost (cash) of the stock.

Now, since each £100 (stock) of the 3 per cent stock cost £$98\frac{5}{8}$ (cash), £4,000 (stock) of this stock cost

$$£98\tfrac{5}{8} \times 40 = £3{,}945 \text{ (cash)}.$$

Also, in the same way, £2,000 (stock) of the 4 per cent stock cost £$107\frac{3}{4} \times 20$ = £2,155 (cash).

Hence the total cost of the stock bought, i.e. the total cash invested, is

$$£3{,}945 + £2{,}155 = £6{,}100.$$

Now, we have found that an investment of £6,100 yields a total income of £200.

The average yield for each £100 (cash) invested is, therefore,

£200 ÷ 61	App. Ans. = £3·25.
= £3·279	61)200(3278$^+$
= £3 5s. 7d.	170
	480
	53

Example 3. On 14th April last, a man bought £250 of 4 per cent Debenture Stock at $104\frac{3}{4}$. In addition to the purchase price he had to pay the following charges—

Stamp and Fee	£2 17s. 6d.
Brokerage, $\frac{1}{2}$ per cent of the purchase price.	
Contract Stamp	1s. 0d.

The interest on this stock is paid in equal half-yearly instalments on 1st January and 1st July. What interest had accrued up to the date of the purchase? Deduct the accrued interest from the sum of the purchase price and charges. Then calculate to the nearest penny the annual yield per £100 invested. (*R.S.A.*)

The period 1st January to 14th April includes

(30 + 28 + 31 + 14) days, that is 103 days.

Now the interest on £250 for 103 days at 4 per cent per annum is—

$\dfrac{£250 \times 103 \times 4}{100 \times 365}$	App. int. = £3.
	2·06
	($\frac{1}{3}$) 0·6867
$= \dfrac{£206}{73}$	($\frac{1}{10}$) 0·0687
	($\frac{1}{10}$) 0·0069
	2·8223
= £2·822.	*Less* 0·0003

The purchase price is £$104{\cdot}75 \times 2\frac{1}{2}$

	$= £104{\cdot}75 \times \frac{10}{4}$	$= £261{\cdot}875$
Brokerage, $\frac{1}{2}$ per cent of £261·875		$= 1{\cdot}3094$
Other charges		$= 2{\cdot}925$
Total		$= £266{\cdot}1094$

Deducting from this total the accrued interest (since this comes to the purchaser on 1st July), we get as the net cost of the stock £266·1094−£2·822 = £263·287. Also the annual income from £250 of 4 per cent stock is £4 × $2\frac{1}{2}$ = £10.

Hence the investment of £263·287 (cash) yields an annual income of £10.

And therefore an investment of £100 (cash) yields annually—

$$\frac{£10 \times 100}{263{\cdot}287} = £3{\cdot}798 = £3\ 16\text{s.}$$

App. Ans. = £4⁻

```
26329)100000(3798
       21013
        2583
         214
           4
```

Example 4. A person owns £2,500 of $4\frac{1}{2}$ per cent stock. He sells out at $108\frac{1}{2}$ and invests the proceeds in $5\frac{1}{2}$ per cent stock at 124. What change in annual income results?

Since the annual income from £100 of this $4\frac{1}{2}$ per cent stock is £$4\frac{1}{2}$, that from £2,500 of this stock is £$4\frac{1}{2} \times 25$ = £112 10s.

On selling out at $108\frac{1}{2}$, the holder of this stock receives £$108\frac{1}{2}$ for each £100 stock sold.

Hence for £2,500 stock he receives in all £$108\frac{1}{2} \times 25$ = £2,712 10s. (cash).

Now for each £100 of $5\frac{1}{2}$ per cent stock bought he pays £124 (cash).

That is, £124 (cash) invested in this stock yields £$5\frac{1}{2}$ income.

Therefore £$2{,}712\frac{1}{2}$ (cash) invested produces $\frac{£5\frac{1}{2} \times 2712\frac{1}{2}}{124}$ income $= \frac{£11 \times 5425}{4 \times 124}$ income $= \frac{£1925}{16}$ income = £120 6s. 3d. income.

The change in income is therefore an increase of £120 6s. 3d. − £112 10s. = £7 16s. 3d.

Example 5. A man who has £3,500 of $3\frac{1}{2}$ per cent stock sells out at $101\frac{7}{8}$ and re-invests the cash realized in a 5 per cent stock, thus gaining £23 6s. 8d. in annual income. At what price does he buy the 5 per cent stock?

The annual income from £3,500 $3\frac{1}{2}$ per cent stock is £$3\frac{1}{2} \times 35$ = £122 10s.

The income from the 5 per cent stock is therefore £122 10s. + £23 6s. 8d. = £145 16s. 8d.

Now the cash realized by the sale of the $3\frac{1}{2}$ per cent stock is £$101\frac{7}{8} \times 35$ = £3,535 + £$30\frac{5}{8}$ = £$3{,}565\frac{5}{8}$.

Hence, £$3{,}565\frac{5}{8}$ invested in 5 per cent stock yields annually £145 16s. 8d. or £$145\frac{5}{6}$.

We have to find the sum (cash) that, so invested, yields £5.

And this sum is $\frac{£3{,}565\frac{5}{8} \times 5}{145\frac{5}{6}} = \frac{£3{,}565\frac{5}{8}}{29\frac{1}{6}} = \frac{£28{,}525 \times 6}{8 \times 175} = \frac{£489}{4}$ = £$122\frac{1}{4}$.

The 5 per cent was bought at $122\frac{1}{4}$.

Example 6. What percentage change in annual income is effected by selling a $3\frac{1}{2}$ per cent stock at $94\frac{1}{2}$ and re-investing the cash realized in a $4\frac{1}{2}$ per cent stock at $112\frac{1}{2}$?

Each £100 of the original stock held yielded £$3\frac{1}{2}$ annual income, and when sold realized £$94\frac{1}{2}$ (cash).

Now to obtain £$4\frac{1}{2}$ annual income from the second ($4\frac{1}{2}$ per cent) stock, it was necessary to buy £100 stock, and this cost £$112\frac{1}{2}$ (cash). Hence, £$94\frac{1}{2}$ (cash) invested in this stock yielded as annual income $\frac{£4\frac{1}{2} \times 94\frac{1}{2}}{112\frac{1}{2}} = \frac{£4\frac{1}{2} \times 189}{225} = \frac{£189}{50}$ = £3·78.

Expressing the income from the second stock as a percentage of that from the first stock, we get $\frac{£3{\cdot}78 \times 100}{£3{\cdot}5}$ per cent = $\frac{378}{3{\cdot}5}$ per cent = 108 per cent.

The increase required is therefore 8 per cent.

Example 7. Calculate the yield of a redeemable security, such as 5 per cent debentures redeemable at par 10 years hence and purchased for £93.

The main problem here is how to treat the profit of £7 per cent on redemption.

A common method is to attribute the increase in the capital value equally over the whole period: that is, in this case to assume that £$\frac{7}{10}$ is added to the capital annually. The average annual return is, therefore, £5·7. But this has to be related to the average of the annual capital, which increases year by year from £93 to £100 at the end of the tenth year. Thus, assuming £0·7 is added in each year, in successive years the capital is £93, £93·7, £94·4 . . . £99·3, giving an average of £96·15. The effective yield for each unit of capital can then be ascertained by dividing the annual return (£5·7) by the average capital (£96·15); thus, yield = (5·7 × 100) ÷ 96·15 = 5·9 per cent approximately.

INVESTMENT ACCOUNTS

Special Ruling. Investment Accounts are usually ruled with three columns on each side, so that the nominal value of the

investment, the principal or capital value, and the periodical interest or dividends may be seen at a glance. Where the interest or dividend is payable at fixed dates, such dates are recorded at the head of the Investment Account.

Entries in the Accounts. When the investment is purchased, the nominal value will be entered in the Nominal Value column and the actual cost in the Capital column. As the dividend or interest is received, the cash will be debited in the Cash Book and posted to the credit of the Income column of the Investment Account. At balancing time, the total receipts from each investment will be transferred to a Dividends and Interest Account and finally to Profit and Loss Account. Where fixed dividends have accrued, but have not been actually received, the amount should at balancing time be entered in the Interest or Dividends column and brought down as a debit balance in the same column.

As regards this adjustment for accrued interest, it must be made clear that it is not a question of adjustment between Capital and Income as is the case in executorship accounts. The adjustment in investment accounts is made in the same way, for example, as prepayments for insurances in commercial accounts, where the amount paid in advance is credited to the expense account and carried down as a debit to the new trading period.

But accruals of income should only be made in the case of interest due at fixed dates on British Government securities, the payment of which is certain. Debenture interest and dividends *must not* be accrued unless actually declared as payable. It does not follow that because debentures or shares carry a fixed preferential or even guaranteed payment it will be forthcoming.

Example 1. P. Ruthven holds £6,000 worth of 2½ per cent Consols, which cost him, including brokerage and expenses, £4,768 14s. 4d. Show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October. (See page 937.)

Purchase of Investments. When investments are purchased cum div.—and the price is always cum div., unless otherwise stated—it will be necessary to ascertain the amount of the accrued dividend, less tax, and to enter it in the Interest or Dividends column of the Investment Account; and also to *deduct* the amount from the opening price of the investment. The balance of the purchase price will represent the capital cost to be entered in the Capital or Principal column. When the dividend or interest on the investment is received, it will be credited in the Interest or Dividend column. The offset on the debit side of the same column will have the effect of reducing the dividend to the amount receivable for the time the investment has been held. When stocks, shares, etc., are purchased cum div., such an adjustment should always be made

2½% CONSOLS

Dividends payable on 5th Jan., 5th April, 5th July, and 5th Oct.

Dr. | *Cr.*

Date	Particulars	Nominal	Dividends or Interest	Capital or Principal	Date	Particulars	Nominal	Dividends or Interest	Capital or Principal
		£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.
19.. Jan. 1	To Balance	6,000 – –	28 12 –	4,768 14 4	19.. Jan. 5	By Cash— Quarter's Dividend to date £37 10 – *Less tax at 4s. 7 10 –		30 – –	
Dec. 31	,, Transfer to Dividends and Interest Account . .		120 – –		Apr. 5	By Cash (ditto) . . .		30 – –	
					July 5	,, ,, ,, . . .		30 – –	
					Oct. 5	,, ,, ,, . . .		30 – –	
					Dec. 31	,, Balance c/d . . .	6,000 – –	28 12 –	4,768 14 4
	£	6,000 – –	£148 12 –	£4,768 14 4		£	6,000 – –	£148 12 –	£4,768 14 4
19.. Jan. 1	To Balance b/d . . .	6,000 – –	28 12 –	4,768 14 4					

Note. The accruing Dividend at the commencement of the year is obtained by taking $\frac{87}{365}$ of £120, the yearly dividend less tax at 4s. Some accountants prefer to take $\frac{87}{92}$ of the quarterly dividend less tax. It makes no difference to the yearly income from the Investment, as the same amount has to be carried forward again at the end of the year.

* *This rate of tax is used for convenience only.*

in private accounts. It would not be proper to show an investment as earning six months' income, if we held the investment for only *two* months.

Sale of Investments. When investments are sold cum. div.—and the price is always cum div., unless specifically quoted ex dividend—it will likewise be necessary to ascertain the amount of the accrued dividend, up to date of sale, less tax, and to enter it in the Interest or Dividends column. Such an adjustment must be made, because the sale-price will include the accruing dividend. The balance of the money received, after deducting the accrued dividend or interest, will represent the capital amount to be entered in the Capital or Principal column.

Profit or Loss on Sale of Investments. When the whole of an investment is sold, the difference of the Capital columns will represent profit or loss on such sale. When only part of an investment is sold, the balance of the holding should be brought down *at cost*. In practice this may be all but impossible if many purchases and sales take place. An average price must then be used. Any difference between the Capital columns will denote profit or loss on the sale. This profit or loss is transferred to a separate account entitled Profit (or Loss) on Sale of Investments. As this profit is of a capital nature, the account should be closed at balancing time by transfer to a Reserve or in reduction of an intangible asset.

Balancing Investment Accounts. When the Investment Account is balanced at the end of each year, the balance should be brought down *at cost* (including brokerage and expenses). Where the market value of the investments on the date of balancing is above cost, no credit should be taken for the enhanced price; but where the market value is below cost, a reserve for depreciation should be made.

Where, at a Balance Sheet date, investments are valued at cost, the Balance Sheet should preferably include a note indicating the position as regards market value—with or without giving the actual figure.

Example 2. A company purchased on the 1st February £10,000 of 4 per cent Stock at 95, dividends being payable on 31st March, 30th June, 30th September, and 31st December. Stamps and Expenses amounted to £4 5s., and Brokerage of $\frac{1}{8}$ per cent was charged. On 1st May £3,000 worth of Stock was sold for cash at 97, less Brokerage $\frac{1}{8}$ per cent and Expenses £1 6s. On 31st August £2,000 worth of Stock was sold for cash at 96 ex div., less Brokerage $\frac{1}{8}$ per cent and Expenses 19s. The market price on 31st December, the date of the annual balancing, was 94. Show the Ledger Account of the investment, recording the above transactions and the receipt of the quarterly dividends, and balance it as at 31st December. (See page 939.)

4% INSCRIBED STOCK

Dividends payable on 31st March, 30th June, 30th Sept., and 31st Dec.

Dr.

Date	Particulars	Nominal Value £ s. d.	Dividends or Interest £ s. d.	Capital or Principal £ s. d.
19.. Feb. 1	To Cash— Purchase of £10,000 Stock at 95 cum div. plus Brokerage ⅛% and stamps and expenses £4 5s.	10,000 – –	26 13 4	9,490 1 8
Dec. 31	,, Transfer to Profit on Sale of Investments Account			73 15 10
31	,, Transfer to Dividends and Interest Account		208 – –	
	£	10,000 – –	£234 13 4	£9,563 17 6
19.. Jan. 1	To Balance b/d	5,000 – –		4,745 – 10

Cr.

Date	Particulars	Nominal Value £ s. d.	Dividends or Interest £ s. d.	Capital or Principal £ s. d.
19.. Mar. 31	By Cash— Quarter's Dividend on £10,000 £100 – – †*Less* Tax @ 4s. 20 – –		80 – –	
May 1	,, Cash— Sale of £3,000 at 97 cum div. *less* Brokerage ⅛% and Expenses £1 6s.	3,000 – –	8 – –	2,896 19 –
June 30	,, Cash— Quarter's Dividend on £7,000 £70 – – †*Less* Tax @ 4s. 14 – –		56 – –	
Aug. 31	,, Cash— Sale of £2,000 at 96 ex div. *less* Brokerage ⅛% and Stamps and Expenses 19s.	2,000 – –		1,916 11
Sept. 30	,, Cash— Quarter's Dividend on £7,000 £70 – – †*Less* Tax @ 4s. 14 – – £56 – –		50 13 4	5 6 8*
Dec. 31	,, Cash— Quarter's Dividend on £5,000 £50 – – †*Less* Tax @ 4s. 10 – –		40 – –	
,, 31	,, Balance (at cost) c/d	5,000 – –		4,745 – 10
	£	10,000 – –	£234 13 4	£9,563 17 6

* £2,000 Stock was in hand only 2 months; therefore 1 month's dividend on £2,000 must be credited to Capital.
† *This rate of tax has been used for convenience only.*

TABULAR SYSTEM OF BOOK-KEEPING

Characteristics of System. The Tabular or Columnar System is a method of book-keeping in which items are subjected to continuous analysis or classification, thereby saving the trouble of periodical dissection and summarizing. A "total" column should always be provided, so that the arithmetical accuracy of the analysis can be verified by means of cross-casting.

It is particularly suitable where transactions are of a regular type and frequent in occurrence.

Advantages. The advantages of the system are that it is simple in application, and can be adapted to almost any book, whether a book of account or a statistical book. It economizes time and saves labour. Tabulated details are often of great importance, and serve many useful purposes in modern business, affording data for comparison, estimating, etc., besides furnishing additional information.

Disadvantages. The disadvantages sometimes urged against the tabular system are that the books required to carry it out are often of unwieldy dimensions; that it is liable to error, as items may easily be analysed into wrong columns and thus vitiate the whole of the results.

Tabular Books of Account. Examples of tabular subsidiary books will be found in Departmental Purchases and Sales Books, in the Journal, Cash Book, Petty Cash Book, and Purchases Book shown in the working of the exercise on Self-Balancing Ledgers; in the Trustee-in-Bankruptcy's Cash Book. Examples of tabular Ledger Accounts are given in the sections dealing with Departmental Accounts, Branch Accounts, and Investment Accounts. Examples of tabular Ledgers will be found in the sections on Cost Ledger, Stores Ledger, Share Ledger, Bills Receivable and Payable Ledgers, on pages 942 and 943 (Hotel Visitors' Ledger), and on page 944 (Consumers' Ledger and Rental Register).

Explanation of Visitors' Ledger. By a glance at the Visitors' Ledger on pages 942 and 943 it will readily be observed that the Ledger presents "tabulation" as applied to accounts in a convincing manner. It has been thought an advantage to give students a short explanation of this tabulated Ledger. First, then, as to the various rulings.

The "horizontal" lines are spaced out in order to show items which are peculiar to the many services rendered and supplies provided for the visitors to the hotel; also it will be noticed that the horizontal lines serve to bring the charges for similar items to the various occupants of the rooms on the same line. As regards the services and supplies, they are enumerated one under another and ruled off under appropriate groups of which there are six in the example. The groups distinguish items as under—

(1) *Residental Charges*: Apartments, Baths, Service and Fire.

(2) *Board*: Breakfasts, Luncheons, Dinners, Suppers, Other Provisions.

(3) *Wines and Liquors*.

(4) *Refreshments, etc.*: Ales, Stout, etc., Minerals, Cigars.

(5) *Sundries*: Stationery, Newspapers, Postages, Disbursements on behalf of Visitors, Carriage, Laundry, Telephone, etc.

(6) *Lounge, Restaurant, Bar, Billiards*.

Below these columns are shown the "credits" for the various visitors, together with the balancing figure—which figure must not be thought to represent a credit balance. It is the "debit" balance of the visitors' accounts entered on the credit side for the purpose of totalling the accounts only. The item "Ledger A/c" refers to balances of visitors' accounts transferred to the general Ledger. The "perpendicular" lines are provided for "Room No." and name of occupant. On the right-hand page are three columns provided to show—

(*a*) *Daily Total*, which shows the total obligation (including visitors' balances due to date) of visitors under each item for the day.

(*b*) *Bt. forward*, which shows the total charge for items under each column brought forward from the previous day's total.

(*c*) *Cd. forward*, which shows the total amount due for supplies to date (i.e. current day's total plus charges brought forward), being the cumulative total chargeable to the visitors on individual items.

The uses to which the various columns are put having been explained, a brief explanation of how this Ledger is written up will be given.

Beginning on the first day of a month, the first line—"Balance brought forward"—will be filled with the amounts due from visitors at this date. Next, the entries are made from the waiters' Check Books, restaurant and other bills, etc., each visitor being charged with the various items supplied during the day. At the end of each day the current day's page of the Ledger is cross-cast, which operation is an effective check on the completeness and accuracy of entries made, and is an advantage peculiar to "tabulation" systems of recording transactions.

Tabular Statistical Books. Examples of these are seen in the Application, Allotment, and Call Books, in the Register of Transfers, etc., of a Company; in the Policy Registers of an Insurance Company; in Cost Accounts in the Wages Analysis Book, the Allocation of Stores Issued Book, Stores Received and Stores Issued Books, etc.; in the Register of Investments of an Investment Company, etc.

QUESTIONS

1. Describe briefly the books of a stockbroker.
2. What is the function of the Tickets Payable Book?

VISITORS'

MONDAY, 6TH

DEBITS	1	MRS. JOHNSON 2	MR. STONE 3	MRS. ANDREW 4
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Bal. bt. Forward				
Apartments		5 –	6 –	10 6
Baths		2 –	2 –	2 –
Service and Fire			1 –	
Board				
Breakfasts		3 –	2 6	1 6
Luncheons		1 6	2 –	2 –
Teas				
Dinners			5 6	4 6
Suppers		1 6		1 –
Other Provisions				8 –
Wines and Liquors			3 –	
Ales, Stout, etc.			1 –	6
Minerals			6	
Cigars				
Stationery				
Newspapers				
Postage				
Paid Out				
Carriage				
Laundry				
Telephone				
Bills from—				
Lounge				
Restaurant				
Bar				
Billiards				
TOTAL		13 –	1 3 6	1 10 –
CREDITS				
Overcharges				
Cash Received				
Ledger A/c				
Bal. car. Forward		13 –	1 3 6	1 10 –
TOTAL		13 –	1 3 6	1 10 –
Folio Ledger A/c				
Transferred to				

LEDGER

June, 19..

5	DEBITS	Daily Total	Bt. Forward	Cd. Forward
£ s. d.		£ s. d.	£ s. d.	£ s. d.
	Bal. bt. Forward			
	Apartments	1 1 6		1 1 6
	Baths	6 –		6 –
	Service and Fire	1 –		1 –
	Board			
	Breakfasts	7 –		7 –
	Luncheons	5 6		5 6
	Teas			
	Dinners	10 –		10 –
	Suppers	2 6		2 6
	Other Provisions	8 –		8 –
	Wines and Liquors	3 –		3 –
	Ales, Stout, etc.	1 6		1 6
	Minerals	6		6
	Cigars			
	Stationery			
	Newspapers			
	Postage			
	Paid Out			
	Carriage			
	Laundry			
	Telephone			
	Bills from—			
	Lounge			
	Restaurant			
	Bar			
	Billiards			
	Total	3 6 6		3 6 6
	CREDITS			
	Overcharges			
	Cash received			
	Ledger A/c			
	Bal. car. Forward	3 6 6		3 6 6
	Total	3 6 6		3 6 6
	Folio Ledger A/c			
	Transferred to			

GAS CONSUMPTION LEDGER

Dr. *Cr.*

Number and Street	Particulars	Meter Reading		Arrears Brought Forward	Charges[1]	Total Debits	Date Received	No. of Receipt	Cash Received	Allowance	Irrecoverable	Arrears Carried Forward	Total Credits	Observations
		Cub. Ft.	Therms											
				£ s. d.	£ s. d.	£ s. d.			£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	

[1] The Charges column will, where required, be subdivided, e.g. Maintenance, Stove Hire, Meter Hire, etc.

RENTAL REGISTER

Situation of Property	Annual Rental *Dr.*	Arrears brought forward	Quarter ending March	Quarter or Half-Year ending June	Quarter ending Sept.	Quarter or Half-Year ending Dec.	Total Cash Received *Cr.*	Allowances		Arrears carried forward *Dr.*
								Property Tax *Cr.*	Repairs *Cr.*	

3. Under what circumstances may the Jobbers Ledger not enter into the recording of a transaction?

4. Why is it necessary to have a Dividends and Rights Ledger?

5. What are the main types of items passed through the Journal in a stock-broker's office?

6. State what you understand to be the function of the Stock Exchange Clearing House.

7. What do you understand by a "Bull" and a "Bear" in connexion with stock and share dealing?

8. What is meant by Contango and Backwardation?

9. What are Investment Accounts? What special ruling is required? Explain the meaning of the terms cum. div. and ex div., and their effect on the Investment Account. How are Investment Accounts balanced?

10. What is the Tabular or Columnar System? What are its advantages and disadvantages?

EXERCISE XXII

1. A man having £500 to invest buys 200 shares in a company at 27s. 9d. per share, and with the remainder buys $2\frac{1}{2}$ per cent Consols at $74\frac{5}{32}$ (brokerage, etc., included). The shares pay an annual dividend of 1s. 9d. a share. Find the total income. *(R.S.A.)*

2. A man buys shares at 25s. 6d. each ex dividend. At the end of the year a dividend of 1s. 9d. per share is declared. He then sells them ex dividend at 25s. 8d. per share. What rate of interest has he received on the money invested? Answer to the nearest penny. *(R.S.A.)*

3. A man bought £300 of $3\frac{1}{2}$ per cent stock at $105\frac{5}{8}$ and also £600 of $4\frac{1}{2}$ per cent stock at $117\frac{3}{8}$. Find, to the nearest penny, the average interest received on each £100 invested. *(R.S.A.)*

4. A man buys £750 of 4 per cent stock at $115\frac{1}{2}$ and in addition to the purchase price pays the following charges: Brokerage, $\frac{1}{4}$ per cent on the stock; stamp, £9; contract stamp, 2s.; registration fee, 2s. 6d. At what rate per cent per annum does he receive interest on his investment?

5. A man bought £2,000 of $3\frac{1}{2}$ per cent stock at $101\frac{3}{8}$, and afterwards sold it at $103\frac{1}{2}$. He paid brokerage at $\frac{1}{4}$ per cent on the stock in each transaction, and the contract stamp on each occasion cost 4s. At the time of purchase there were the following additional charges: Stamp, £20 10s.; registration fee, 2s. 6d. By how much was the man's capital increased as a result of the transaction?

6. The holder of £3,500 Conversion Loan ($3\frac{1}{2}$ per cent) sells out at $106\frac{5}{16}$ and invests the cash realized in a 4 per cent stock at 115. What is the change in his annual income, brokerage at $\frac{1}{4}$ per cent on the stock being charged in each transaction?

7. As a speculation, a man bought 500 5s. shares of a company at 28s. $4\frac{1}{2}$d. each (brokerage $1\frac{1}{2}$d. per share). He received dividend at 16 per cent less income tax at 5s. in the £, and was allowed to take up 50 new shares (ranking equally with those already issued) at 10s. per share, free of brokerage. He sold all the shares at 25s. $10\frac{1}{2}$d. each (brokerage $1\frac{1}{2}$d. per share). What did he lose by these transactions? *(R.S.A.)*

8. The dividends on a certain 4 per cent debenture stock are paid in two equal half-yearly instalments at the ends of June and December. At the end of April an investor purchased £250 of this stock at $104\frac{1}{4}$. In addition to the purchase price, he had to pay £2 17s. 6d. stamp and fee, brokerage $\frac{1}{2}$ per cent of the purchase price, contract stamp 1s. What interest had accrued on the £250 stock during

the four months preceding the date of purchase? Adding the charges and deducting the accrued interest, calculate the net cost. Hence, ignoring the matter of the future redemption of the stock, find the annual yield in £ *s. d.* per £100 invested. *(R.S.A.)*

9. The George C. Waud Finance Corporation, Ltd., hold a large number of investments. Explain briefly what records you would advise the Company to keep relative to their investments. Give a *pro forma* ruling of the Ledger Account you recommend, and enter therein not more than six items.

(London Chamber of Commerce.)

10. Show by the Ledger entries *only* what the total amount of an Investment Account would be at the end of six years' Compound Interest (yearly) $2\frac{1}{2}$ per cent—neglect fractions of a penny. The amount invested *yearly* is £250.

11. Prepare the necessary accounts, relative to the undermentioned investment, which would appear in W. A. Richardson's Ledger—

On 1st June, Richardson purchased £5,000 New Zealand 3 per cent (1945) Stock at $85\frac{1}{2}$ plus 2s. 6d. per cent brokerage and 45s. stamps, etc. On 3rd April, 2 years later, Richardson sold £4,000 of the Stock at 89, and paid £6 7s. expenses.

Interest upon the stock is payable half-yearly on 1st April and 1st October, less tax (to be taken at 5s. in the £). *(R.S.A.)*

12. Ulrich Brunner purchased, on 3rd August, £1,150 Canadian Western Railway Co. 5% Debenture Stock at $85\frac{1}{2}$%, and paid £10 3s. for stamps, commission, etc. On 29th April next, Mr. Brunner sold the Stock at 88% and paid £11 1s. expenses. The debenture interest is payable half-yearly, on 1st April and October, less tax (to be taken at 5s. in the £). Prepare the accounts, showing the history of this investment, as it should appear in Mr. Brunner's Ledger. *(London Chamber of Commerce.)*

13. Describe the best method of keeping the accounts relating to the investments of an individual or a firm, and record the following transactions in the books you would recommend—

On 3rd May, Robert Rene bought £2,000 Arcadian Government 5% Bonds at 95 plus 2s. 6d. per cent, brokerage and 18s. stamps.

On 30th September of the following year he sold £1,000 of these Bonds at 98 less £3 10s. expenses. Interest on the Bonds is payable on 1st January and 1st July in each year.

Ignore all questions of Income Tax. *(R.S.A.)*

14. The following transactions A B had with his London broker, John Statham—

On the 18th March he buys £15,000 New Zealand $3\frac{1}{2}$% 1940 Stock at $106\frac{3}{4}$, £7,000 Victoria 4% 1881 Inscribed at $104\frac{3}{8}$, and £5,000 Natal 4% Inscribed 1937 at $119\frac{1}{4}$. On these transactions the broker charges a commission of $\frac{1}{8}$%.

On the 25th March he sells the New Zealand Stock at $107\frac{1}{4}$ and the Natal Stock at $120\frac{1}{2}$, the Victoria Stock being carried forward, Contango being charged of one-eighth.

You are asked to show how these transactions would appear in John Statham's Ledger. *(London Chamber of Commerce.)*

15. F. Reynolds holds £10,400 of $2\frac{1}{2}$% Consols, which cost him, including brokerage and expenses, £8,333 2s. Show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October.

16. A Company purchased on 1st March £24,000 of 4% Blank Preference Stock at 90, dividends being payable on 31st March, 30th June, 30th September, and 31st December. Stamps and expenses amounted to £10 16s., and brokerage of $\frac{1}{8}$% was charged. On 1st June, £6,000 of Stock was sold for cash at 92, less brokerage one-eighth and expenses £2 14s. On 1st September, another £6,000 of Stock was sold for cash at 91 *ex div.* less brokerage $\frac{1}{8}$% and charges £2 14s. The market price on 31st December, the date of the annual Balance Sheet, was 89. Show the Ledger Account of the investment recording the above transactions and the receipt of the quarterly dividends, and balance it as on 31st December.

17. Philip Snowflake had the undermentioned transactions with his broker on the London Stock Exchange—

On 16th July he bought £15,000 Mexican Ordinary at 46$\frac{3}{4}$; on 21st July, £14,000 South-Eastern at 32$\frac{1}{8}$; on 23rd July, £16,000 North-Western at 69$\frac{7}{16}$. On these transactions the broker charged a commission of $\frac{1}{8}$%. On 24th July, Snowflake sold the South-Eastern at 34. On the 30th July, Snowflake carried forward the Mexican Ordinary and North-Westerns at 47 and 69$\frac{11}{16}$ respectively, contango being charged at $\frac{1}{8}$% on each stock.

Show Snowflake's account in the broker's Ledger.

18. Briefly explain the principles of the Columnar or Tabular system of book-keeping.

Illustrate the advantages of this system by means of *pro forma* rulings of a Cash Book, or other book of first entry, suitable for use in a small hotel.

(London Chamber of Commerce.)

19. Prepare a form of a Columnar Ledger suitable for use in a small hotel, and enter the following details—

Tuesday, 17th January: Visitors' accounts—J. Hughes (Room 1): Balance from previous day, £1 12s. 6d.; Apartments, 7s. 6d.; Breakfast, 2s. 6d.; Lunch, 3s. 6d.; Dinner, 5s.; Wine, 8s. 6d.; Spirits, 9d.; Cigars, 1s.; Postages, 6d.; Laundry, 3s. 4d. F. J. Griffiths (Room 5): Apartments, 5s.; Breakfast, 2s. 6d.; Tea, 1s. 6d.; Supper, 2s.; Liqueurs, 9d.; Minerals, 1s.; Bath, 1s.; Fire, 1s. J. E. Elliott (Room 3): Balance from previous day, £2 10s. 6d.; Breakfast, 2s. 6d.; 'bus to Station, 6d.; Cash received in settlement of bill, £2 13s. 6d.

(London Chamber of Commerce.)

20. Give the ruling of a Rates Ledger suitable for a Water Co. or municipal body, and illustrate its use by inserting a few items. *(Chartered Accountants.)*

21. Draw up the form of a Tabular Day Book suitable for a hotel; also make three entries therein.

22. The issued share capital of Z Limited consists of 50,000 6 per cent Preference Shares of £1 each, fully paid, 30,000 of the same shares, 15s. paid, and 200,000 Ordinary Shares of 10s. each, fully paid. The company's year ends on 31st December.

At the annual meeting held on 14th March, 1948, it was resolved—

(*a*) To pay the Preference Dividend for the half-year to 31st December, 1947 (the dividend on the partly paid shares being in proportion to the amount paid up).

(*b*) To pay a Final Dividend of 10 per cent and a bonus of 2 per cent on the Ordinary Shares, both free of tax.

(*c*) To transfer £5,000 to General Reserve; and

(*d*) To distribute to the Ordinary Shareholders a bonus of one new Ordinary Share, issued as fully paid, for each existing five shares held, the necessary transfer being made from General Reserve.

Set out the Journal entries recording the carrying out of the above decisions (entries recording the cash payments are *not* required).

(*London Chamber of Commerce.*)

23. (*a*) Explain and illustrate by *pro forma* Journal entries the three ways a company may provide for the redemption of its debentures.

(*b*) Under what circumstances may bonus shares be issued? Support your answer with an illustration of the way a company will record the issue of such shares

24. Thomas Burns started in business on 31st May, 1948. During the following year two of the Ledger Accounts in his books showed the following transactions—

RATES AND TAXES ACCOUNT

			£	s.	d.
1948					
June 5.	To Cash:	Rates to 30/9/1948	17	10	–
,, 6.	,, ,,	Water to 30/9/1948		17	–
Dec. 4.	,, ,,	Water for half-year to 31/3/1949	1	6	–
,, 8.	,, ,,	Rates for half-year to 31/3/1949	26	–	–
1949					
May 20.	,, ,,	Water for half-year to 30/9/1949	1	6	–
,, 20.	,, ,,	Rates for half-year to 30/9/1949	26	–	–

INSURANCE ACCOUNT

			£	s.	d.
1948					
June 24.	To Cash:	Premium on fire policy to 24/6/1949	5	8	–
,, 30.	,, ,,	Premium on burglary policy, year to 30/6/1949	3	18	–

You are required to balance each account at 31st May, 1949, Burns's accounting date, making such adjustments as you consider necessary.

25. The following is the Balance Sheet of A, B, & C on 31st December—

Liabilities	£	*Assets*	£
Creditors	2,000	Cash	500
Bank Loan	500	Stock	2,000
Bills Payable	500	Plant and Tools	2,000
A—Capital	2,500	Sundry Debtors	1,000
B—Capital	1,500	Bills Receivable	1,000
		C—Capital overdrawn	500
	£7,000		£7,000

C is insolvent, but his partners recover from his private estate £250. It is decided to wind up the partnership, and the assets realize: Cash £500, Stock £1,600, Plant and Tools, £1,500, Sundry Debtors £750, Bills Receivable £700. Profits and losses are divided equally. What would be the position of each partner's account on the winding-up of the partnership in accordance with the Partnership Act, the costs of realization amounting to £250?

(*Chartered Accountants.*)

26. W. Brown, a wine and spirit merchant, had on 31st December the following assets—

	£
Cash at Bank	500
Cash in hand	50
Port Wine, 5 pipes at £60	300
Sherry, 5 butts at £50	250
Owing by H. Johnson	50
Bill receivable (J. Smith due 12th January next)	250
Office Furniture	100
	£1,500

His liabilities on the same date were—

Due to A. Robinson	£90
,, W. Walters	60
Bill payable (A. Robinson due 6th January next)	50
	£200

On 1st January, a company was formed, with a capital of £2,500 in £1 shares, to purchase W. Brown's business; and it was agreed that the purchase price should be an amount equal to his capital in the business on 31st December last, to be paid as to £500 in cash and the balance in fully paid shares, the company taking over all the assets and liabilities of the business. The remaining shares were issued to the public and were duly subscribed, allotted, and paid up.

You are required to make the necessary entries recording the above. (*R.S.A.*)

27. In January last a company was registered with a capital of £250,000 in 25,000 shares of £10 each. 20,000 shares were applied for and duly issued, £1 per share being paid on application and £2 per share on allotment. A call of £3 per share was made three months after the date of allotment, and a further call of £3 two months after the date of the first call. Of the first call £55,000 was received, and of the second call £47,500. These moneys were all duly paid over to the bankers of the company.

The company purchased the "Glasdale Iron Works" from Messrs. Wilson & Co. for £125,000, inclusive of all plant, machinery, stocks, etc. They received on account of purchase money an allotment of £25,000 in fully paid up shares, and the balance was paid to them in cash.

Make the necessary Journal and Cash Book entries, giving effect to the above transactions, and post the same to Ledger Accounts.

(*London Chamber of Commerce.*)

28. The prospectus of Messrs. Black & Tan, Ltd., was publicly advertised on 21st January, with the following loan and share issues. *Debentures*, 1,000 4 per cent Debentures of £100 each; the whole of which were offered and fully subscribed and paid up. *Preference Shares*, 20,000 6 per cent Preference Shares of £5 each; the whole of which were offered and fully subscribed and paid up. *Ordinary Shares*, Nominal 30,000 shares of £5 each; of which 10,000 shares were issued as fully paid to the vendors in part payment of the purchase price of the business. Of the remaining 20,000 shares the public subscribed for 15,000 shares, the whole of which were, in due course, fully paid up, with the exception of the last call of £2 per share on 500 shares, which were subsequently forfeited by resolution of the directors. Pass the necessary entries through the company's books to record these transactions, and state how they should appear in the Balance Sheet. (*London Chamber of Commerce.*)

29. The British Timber Syndicate, Ltd., was registered with a Capital of £200,000, divided into 10,000 Ordinary Shares of £10 each, and 10,000 6 per cent cumulative Preference Shares of £10 each. The objects of the syndicate were *inter alia* to purchase as a going concern the business of Messrs. Poole & Co. The purchase price was agreed at £110,000, payable as to £10,000 in Cash, and as to £100,000 in 10,000 Ordinary Shares of £10 each allotted as fully paid.

The whole of the Preference Shares were offered for public subscription on 15th February, payable £1 10s. on application, £1 10s. on allotment, £3 on 1st April, £2 on 1st June, and £2 on 1st August. Applications and deposits were received as follows—

			No. of Shares	*Amount of Deposit* £
Feb.	16.	Fred Smith, Surveyor, 12 Brooke Street, Lyndhurst	1,200	1,800
,,	17.	Thomas E. Finch, Journalist, 64 Fleet Street, London, E.C.4	600	900
,,	18.	Philip Strong, Architect, 17 Thornville Road, Buxton	1,000	1,500
,,	18.	Grace M. Carter, Spinster, 2 Boulders Lane, Cleethorpes	600	900
,,	18.	Reginald Turner, Merchant, 56 Longworth Road, Thurston	1,200	1,800
,,	19.	Arthur Brown, Broker, 95 St. Peter's Road, Somerset	1,000	1,500
,,	19.	Norman Trelwyn, Mason, 110 Lime Street, Liverpool	1,500	2,250
,,	20.	Leslie Philpott, Butcher, 14 Larneway Avenue, Buxton	600	900
,,	20.	Harold French, Designer, 106 Corncrake Lane, Leicester	1,200	1,800
,,	21.	Alfred Smith, Banker, 2 Grange Mansions, Pudworth	2,500	3,750

On 23rd February the directors made the following allotments—

F. Smith	1,000 Preference Shares, numbered			1 to 1,000
T. E. Finch	500	,,	,,	,,	1,001 to 1,500
P. Strong	1,000	,,	,,	,,	1,501 to 2,500
G. M. Carter	500	,,	,,	,,	2,501 to 3,000
R. Turner	1,000	,,	,,	,,	3,001 to 4,000
A. Brown	1,000	,,	,,	,,	4,001 to 5,000
N. Trelwyn	1,500	,,	,,	,,	5,001 to 6,500
L. Philpott	500	,,	,,	,,	6,501 to 7,000
H. French	1,000	,,	,,	,,	7,001 to 8,000
A. Smith	2,000	,,	,,	,,	8,001 to 10,000
Poole & Co. (Vendors)	10,000 Ordinary		,,	,,	10,001 to 20,000

On 1st March the various sums payable by the allottees were duly received.

The following further transactions took place—

Mar. 10. Transfer registered: 1,000 Ordinary Shares (10,001–11,000) from Poole & Co. to Francis Laurel, Mason, 16 Penzance Road, Falmouth.

,, 22. Transfer registered: 1,000 Ordinary Shares (11,001–12,000) from Poole & Co. to Bert Tomlin, Grocer, 27 Elgin Avenue, Somerset.

,, 25. Transfer registered: 100 Preference Shares (1–100) from F. Smith to T. E. Finch.

April 1. Received sums due from shareholders on account of First Call.
,, 20. Transfer registered: 500 Preference Shares (6,501–7,000) from L. Philpott to H. French.
May 16. Transfer registered: 1,000 Preference Shares (8,001–9,000) from A. Smith to T. E. Finch.
,, 24. Transfer registered: 1,000 Ordinary Shares (12,001–13,000) from Poole & Co. to Leslie Charlton, Banker, 3 Lothbury Mansions, Poole.
June 1. Received sums due from shareholders in respect of Second Call.
June 23. Transfer registered: 500 Ordinary Shares (13,001–13,500) from Poole & Co. to Charles Dalton, Builder, 64 Roseberry Avenue, Paignton.
July 16. Transfer registered: 500 Preference Shares (5,001–5,500) from N. Trelwyn to R. Turner.
Aug. 1. The sums due from shareholders in respect of Final Call all received except £1,000 from A. Brown, on which he agreed to pay interest.
,, 20. Transfer registered: 500 Preference Shares (1,501—2,000) from P. Strong to H. French.
Sept. 19. Transfer registered: 500 Ordinary Shares (13,501–14,000) from Poole & Co. to Robert Soames, Gentleman, 17 Lionel Gardens, Bromley.

You are required to write up—

(1) Application and Allotment Books and subsidiary Cash Books.
(2) Statutory Return of Allotments.
(3) Call Books and subsidiary Cash Books.
(4) Transfer Registers.
(5) Share Ledgers (Ordinary and Preference).
(6) Annual Return and a Balance Sheet to be rendered therewith.

CHAPTER XXIII

BANK BOOK-KEEPING AND ACCOUNTS

Services of the Modern Banking System. The services rendered by the modern banker to commerce, industry, and the community in general may briefly be summarized as follows—

(1) Keeping current accounts for traders and private individuals, collecting cheques, bills of exchange, and cash articles (postal orders, money orders, bank notes, etc.), and affording facilities, by means of cheques and drafts, for remitting money from one part of the country to another.

(2) Discounting bills of exchange and promissory notes.

(3) Granting loans and overdrafts on approved securities.

(4) Receiving money on deposit.

(5) Affording facilities for obtaining money abroad, by means of circular notes and letters of credit.

(6) Acting as agent for country and foreign banks.

(7) Buying and selling stocks and shares for customers, collecting dividends, also keeping in safe custody for them, jewels, securities, and other valuables.

How a Banker makes his Profits. A banker's profits are derived from interest on loans granted, discount (or interest) on bills and notes discounted, commission charged for conducting current accounts, for accepting and endorsing bills payable abroad, and for other services rendered to his customers. Inasmuch as he is liable to repay on demand the balances of his customers' current accounts, he retains of the money received, either in his possession or on current account at the Bank of England, a sum sufficient to meet his normal requirements. The remainder he lends out at remunerative rates of interest, or invests in Government, municipal, or other gilt-edged securities.

Special Features of Bank Book-keeping. As can be seen from the previous two paragraphs, a banker requires books to record money received, money paid, money lent, interest, discount, and commission earned, interest paid, expenses of management, etc. The system adopted, therefore, consists chiefly of an elaborate analysis of cash received and paid. Other special features are the slip system of ledger posting, and the daily balance.

Nearly every bank has its own particular system of book-keeping, so that it is impossible to lay down hard and fast rules. A typical system will, however, be described.

NOTES ON THE BOOKS

Receiving Cashier's Counter Cash Book. The Receiving Cashier (or teller) is the cashier who receives over the counter the customers' lodgments, i.e. cheques, notes, coin, etc., which the customer wishes to be placed to the credit of his account. He initials the customer's paying-in book. All these receipts he records in his own Cash Book as and when he receives them. The following is a specimen—

RECEIVING CASHIER'S COUNTER CASH BOOK

Customer	Total	Cheques, etc.	Notes	Coin
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Smith & Son . . .	85 3 2	62 10 6	20 – –	2 12 8

Paying Cashier's Counter Cash Book. The Paying Cashier is the cashier who pays over the counter those cheques drawn by the bank's customers that are not crossed. He enters such cheques in his Cash Book, and records the numbers of any notes issued. The following is a specimen—

PAYING CASHIER'S COUNTER CASH BOOK

Customer	Total	Coin	Notes[1]		House Cheques	Walks Cheques
			Amount	Numbers		
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Bartlett, F. M. . .	30 11 6	10 11 6	20 – –	4 £5 47081–4		
Stevens & Sons . .					4 10 –	

[1] Bank Notes.

Received Waste Book. This is a book ruled with columns in order that the cheques, etc., received by a bank for the credit of its customers' accounts may be analysed into appropriate groups so as to facilitate collection. Thus, all Town Clearing cheques are grouped together, all Metropolitan Clearing, all Walks cheques, all Bank of England cheques, and so on. (The London Bankers' Clearing House merged the clearings as an emergency war measure and this is still the position at the time of writing.) Some banks enter only the cheques received, others enter coin and notes as well in order that the total may be checked with the Received Cash Book total. A specimen is shown on page 954. "Walks Cheques" refers to those cheques which are drawn on bankers not represented at the Clearing House. The collecting bank's representative has to walk to the paying bankers to present the cheque and collect the money.

RECEIVED WASTE BOOK

Customer	Total	Town Clearing	Metropolitan Clearing	Country Clearing	Walks	Bank of England	House (own) Cheques	Notes	Coin
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Smith & Son	85 3 2	24 10 –	10 12 6	6 10 –	5 12 6	10 15 6	4 10 -	20 – –	2 12 8

Bills Received for Collection Register. Customers who receive bills of exchange usually pay them into their bank for collection two or three days before the due date. This gives their banker time to present such bills on the exact due date. These bills are numbered consecutively by the bank, and full particulars are entered in a special book entitled "Bills Received for Collection Register." A specimen of such book is given on page 956. Some banks credit these bills to the customers' accounts in a separate Bills Ledger, and debit them to a General Ledger Account, entitled "Bills Received for Collection." When the bills are paid, dockets are prepared reversing the former entries, the Bills Ledger Account being debited and the Bills for Collection Account credited; Cash also is debited, and the amounts credited to the customers' accounts in the Current Accounts Ledger. In other banks these bills are excluded from the system of accounts. Only the Register is kept and, when the bills are paid, Cash is debited and the Current Accounts credited. All bills are arranged in order of due date and entered in a special Bill Diary.

Bills Received for Discount Register. This is a book which gives full particulars of all bills discounted by a bank for its customers. A specimen is shown on page 956.

Bills Received for Discount Ledger. This is a book which records particulars of bills discounted for each individual customer, an account being opened in the customer's name. It is important for a bank to know how much it is advancing on each individual customer's endorsement. Particulars of these discounted bills are also entered in an **Acceptor's Ledger,** an account being opened in the name of each acceptor. By this means the bank can prevent itself holding too many of any one person's acceptances. When the bill is discounted, the full face value is debited to a Bills Receivable Discounted Account and credited to the customer's Current Account. The discount charged is debited to the customer's Current Account and credited to a Discount Account in the General Ledger. When the discounted bill is paid at maturity, Cash is debited and Bills Receivable Discounted Account credited. The following is a specimen of the Discount Ledger.

BILLS RECEIVED FOR DISCOUNT LEDGER

Date Received	No. of Bill	Acceptor	Drawer	Due Date	Amount *Dr.*	Amount *Cr.*	Balance
19..				19..	£ *s.* *d.*	£ *s.* *d.*	£ *s.* *d.*
Jan. 12	842	T. Pink	R. Cook	Feb. 28	268 9 2		268 9 2
Feb. 28	,,	Paid				268 9 2	

BILLS RECEIVED FOR COLLECTION REGISTER

No.	Date Received	From whom Received	Drawer	Acceptor	Date of Bill	Due Date	Where Payable	Amount of Bill	Date Paid
	19..				19..	19..		£ s. d.	19..
825	Jan. 16	Limpet & Co.	A. Johnson	F. Green	Nov. 15	Jan. 18	London and County	287 14 8	Jan. 18
826	Jan. 17	Scott, R. J.	Roberts & Co.	T. Lake	Dec. 16	Jan. 19	Bank of England	106 11 7	

BILLS RECEIVED FOR DISCOUNT REGISTER

No. of Bill	Seller	Acceptor	Drawer	Where Payable	Amount of Bill	Due Date	Date Dis-counted	Days to Run	Rate of Dis-count	Amount of Discount	Remarks
					£ s. d.	19..	19..			£ s. d.	
834	Albert & Co.	Scott & Browne	A. Tomlin	London Joint Stock	420 – –	Feb. 14	Jan. 4	41	5%	2 7 2	Paid
835	Thompson, A.	Green & Co.	C. Beaver	Union & Smiths	200 – –	Mar. 2	Jan. 5	56	5%	1 10 8	Paid

CURRENT ACCOUNTS

Definition. A Current Account is the running account of the merchant or business man with his banker, into which he is daily paying cheques and on which he is daily drawing cheques.

Interest on Current Accounts. It is the practice of some London banks to require a certain substantial balance of from £50 to £100 to be maintained, and not to allow interest on the account, nor to charge for keeping it. Where, however, a very large balance is constantly maintained, arrangements are sometimes made for allowing interest thereon. Provincial banks allow interest on current accounts, and likewise charge interest when the balance falls below a stipulated amount.

Charges for Keeping a Current Account. Where only a small balance is maintained a charge is made varying from half-a-guinea to two guineas for conducting the account. Some bankers debit the fee to their customers as "charges," others term it "commission." Again, some banks make a charge based on the turnover for keeping the account; it varies from even less than $\frac{1}{8}$ per cent to $\frac{1}{4}$ per cent on the turnover, i.e. the total amount of the items debited to the account. A third method, when an account is active, although the balance is never very large, is to charge so much per page.

Form of Current Account Ledger. The form of the Current Account Ledger is quite different from that of the ordinary commercial Ledger. The Dr. and Cr. columns are placed side by side and are followed by a third column in which is inserted the daily balance. This form of Ledger is retained even when no interest calculations have to be made.

Calculation of Interest. Interest is calculated on the daily credit balance for the number of days such balance remains unchanged. The balance (taken to the nearest pound) is multiplied by the number of days and the result extended into the "products" column; such products are often spoken of as "decimals," though quite inaccurately. The rate of interest allowed is usually $1\frac{1}{2}$ per cent below Bank rate, and thus fluctuates with it. Where the Bank rate has fluctuated during the half-yearly account, the products are divided into periods corresponding with each particular Bank rate, and a separate total of products is made for each period. At the close of the half-year, each total is charged with its proper rate of interest. In actual practice the amount of the interest is ascertained by reference to special Interest Tables; but in examination work it must be found by arithmetical calculations as explained in Chapter VIII on Accounts Current.

Example. From the following particulars draw up the account of William White, 27 Rufus Gardens, Brinkley, as it would appear

in the Bank's Current Account Ledger on 30th June, interest to be charged at 3 per cent on the daily balance—

19..		*Deposits* £	s.	d.	19..		*Withdrawals* £	s.	d.
Jan. 1.	Balance . .	206	12	4	Jan. 12.	Cheque . .	41	4	8
Feb. 12.	Cash, etc. .	57	18	11	Feb. 9.	Cheque . .	24	13	5
Mar. 24.	Cash, etc. .	43	2	8	Mar. 18.	Cheque . .	36	12	10
Apr. 13.	Cash, etc. .	57	4	10	Apr. 23.	Cheque . .	17	14	2
May 15.	Cash, etc. .	29	13	6	May 16.	Cheque . .	85	3	6
June 25.	Cash, etc. .	120	15	3	June 21.	Cheque . .	54	8	9

(See next page.)

BANK PASS BOOK

The Bank Pass Book is a detailed account of the transactions that the trader has had with his bankers, a record of the amounts he has paid into, and withdrawn from, the bank, and by means of which he checks the "Bank" column of his own Cash Book. Accounting machines are now used in most banks, and the old hand-written Pass Book has given way to the loose-leaf account prepared by a machine. The loose leaves are kept in some form of binder. A specimen leaf is given below—

In Account with

NATIONAL PROVINCIAL BANK LIMITED

High Holborn Branch,

London, W.C.1

JOHN JONES Esq.

Date	Particulars	Debit			Credit	Dr. or Cr.	Balance		
8 JUL 50	BALANCE FORWARD					CR	138	4	6
	SELF	10	–	–		CR	128	4	6
9 JUL 50	SOUTHEND WATERWORKS	3	12	6					
	RADIO RENTALS LTD.		15	–					
	REFUGE ASSCE CO	7	3	2		CR	116	13	10
10 JUL 50	RETZBACH	6	–	–		CR	110	13	10
17 JUL 50	SELF	40	–	–		CR	70	13	10
25 JUL 50	GAS LIGHT COKE CO		19	1		CR	69	14	9

DEPOSIT ACCOUNTS

Definition. A Deposit Account represents money which has been placed with a banker at interest, and which cannot be withdrawn without previous notice. The length of notice varies from 7 days to 12 months and the longer the notice of withdrawal required, the higher the rate of interest allowed on the deposit.

Deposit Receipt. A Deposit Receipt is the receipt given by a banker for money placed on deposit with him. It needs no stamp, and is not transferable. Most banks now issue Deposit Pass Books instead of Deposit Receipts.

CURRENT ACCOUNT LEDGER

William White,
27 Rufus Gardens, Brinkley.

Date		Details	Folio	Amount Dr. (£ s. d.)	Amount Cr. (£ s. d.)	Nature of Balance	Balance (£ s. d.)	Interest: Days	Interest: Products	Interest: Rate	Interest: Amount (£ s. d.)
Jan.	1	By Balance			206 12 4	Cr.	206 12 4	12	2,484		
,,	12	To Cheque		41 4 8		,,	165 7 8	28	4,620		
Feb.	9	,, ,,		24 13 5		,,	140 14 3	3	423		
,,	1	By Cash			57 18 11	,,	198 13 2	[illegible]4	6,[illegible]66		
Mar	1[illegible]	To Cheque		36 12 10		,,	162 – 4	6	972		
,,	24	By Cash			43 2 8	,,	205 3 –	20	4,100		
Apr.	13	,, ,,			57 4 10	,,	262 7 10	10	2,620		
,,	23	To Cheque		17 14 2		,,	244 13 8	22	5,390		
May	15	By Cash			29 13 6	,,	274 7 2	1	274		
,,	16	To Cheque		85 3 6		,,	189 3 8	36	6,804		
June	21	,, ,,		54 8 9		,,	134 14 11	4	540		
,,	25	By Cash			120 15 3	,,	255 10 2	5	1,280		
,,	30	,, Interest			2 19 8						
,,	30	To Balance c/d		258 9 10							
				£518 7 2	£518 7 2				36,273	3%	£2 19 8
June	**30**	**By Balance b/d**			258 9 10	Cr.	258 9 10				

Transfers from Current Account to Deposit Account. Customers sometimes wish money to be transferred from their Current to a Deposit Account, and in such cases slips are prepared as follows—

THE SAFE BANK, LIMITED

15*th Jan.*, 19..

DEBIT *Arthur Roberts*, Current Account, transfer to Deposit Account.

A. R. F.,

£250. Accountant.

THE SAFE BANK LIMITED

15*th Jan.*, 19..

CREDIT *Arthur Roberts*, Deposit Account, transfer from Current Account.
Deposit Receipt No. 74168.

A. R. F.,

£250. Accountant.

or else a docket in this form—

THE SAFE BANK LIMITED

15*th Jan.*, 19..

Arthur Roberts

DEBIT Current Account	£250
CREDIT Deposit Account	£250
	A. R. F.

BANKERS' CLEARING HOUSE

The Bankers' Clearing House is a place where bankers or their representatives meet to exchange cheques drawn on one another. Each bank draws up a list and ascertains the result of its "in" and "out" clearing with each of the other banks. These net differences are settled by means of drafts on the Clearing Bankers' Account at the Bank of England.

Banks usually keep two separate Registers ruled with columns for the different banks, in which all cheques are analysed. The totals of the "In" and "Out" Clearing Registers are entered into a Clearing Balance Book, separate totals being shown for each clearing bank. The differences between each set of totals are

settled by transfers either from the Clearing Bankers' Account to the accounts of the banks to whom the money is due, or to the Clearing Bankers' Account from the banks owing such balances.

SLIP SYSTEM OF LEDGER POSTING

Slips are used in some cases instead of some subsidiary books. On them transactions are entered as they occur and the slips are passed to the ledger-keeper concerned for immediate posting to the debit or credit of the accounts mentioned thereon. Their use is not confined to bankers, but the present seems a suitable place at which to mention them.

The advantages of the slip system include the great saving of time in posting. The slip system enables numerous ledger-keepers to be posting the same day's transactions simultaneously. There is also a saving in cost, as the slips are usually filled in by customers or other "outside" parties.

In a bank the original cheques drawn by customers are used as vouchers for posting. The cashier credits Cash and passes them to the ledger-keeper to debit the customers. The original paying-in slips are made out by the customers and used as vouchers for posting. The cashier debits Cash, initials slips, and passes them to the ledger-keeper, who credits the customers' accounts.

The original application form made out by the customer for a fresh book of cheques is used as a voucher for posting; the clerk credits "Stamps on Cheques" Account and debits the customer. The bank makes out its own slips (also called "dockets") for transfer of money from customers' current accounts to customers' deposit accounts, and these are passed to the ledger-keepers for posting.

These slips and original documents are also passed to other clerks for analysis in the Waste Book, for writing up the Pass Books, and for constructing Total Accounts in the General Ledger, etc.

GENERAL CASH BOOK AND LEDGER

The whole of the bank's transactions are summarized daily in a special Summary Book, the totals of all other books being entered. When the balance has been struck and agreed with the various Registers and the Cash held, which consists of money, notes and cheques not collected, the final summary is then written in the General Journal or Cash Book, and posted to the General Ledger. The General Ledger contains only total accounts. A total account may represent either a subsidiary Ledger or a group of such Ledgers. Specimens of Cash Book and General Ledger follow.

Dr. **CASH DAY**
WEDNESDAY,

	£ s. d.	£ s. d.
To Town Current A/cs, paid in	1,308,658 14 7	
,, Country Current A/cs, paid in	362,500 19 6	
		1,671,159 14 1
,, Overdrawn Current A/cs—		
Town	60,785 12 8	
Country	52,187 13 8	
		112,973 6 4
,, Loans paid off		35,050 15 9
,, Deposits paid in		5,860 15 –
,, Bills Discounted		3,752 10 5
,, Bills for Collection		1,475 10 6
,, Interest on Loans		42 5 10
,, Discount		84 7 2
,, Commission		25 – –
,, Letters of Credit		65 14 10
,, Circular Notes		50 – –
,, Suspense A/c *re* Lloyd & Co.		26 2 8
,, Cheque Stamps		20 10 6
,, Branches paid in		1,267,841 18 4
,, Bank of England drawn out		525,070 10 –
,, Bills Payable		32,650 12 8
,, Acceptances		75,837 6 10
,, Money at Call		24,685 16 2
,, Promissory Notes Discounted		2,163 10 2
		3,758,836 7 3
Balance from 1st March		85,187 10 4
	£	3,844,023 17 7

GENERAL LEDGER

CASH

Date		Dr. £ s d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar 1	. . . .			Dr.	85,187 10 4
2	To Day Book	3,758,836 7 3			
2	By do.		3,758,108 13 –	Dr.	85,915 4 7

BANK OF ENGLAND

Date		Dr. £ s. d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar 1	. . . .			Dr.	726,662 10 6
2	To Day Book	616,745 15 6			
2	By do.		525,070 10 –	Dr	818,337 16 –

BOOK

2ND MARCH, 19..

Cr.

	£ s. d.	£ s. d.
By Town Current A/cs, drawn out	1,156,804 13 2	
,, Country Current A/cs, drawn out	347,628 10 2	1,504,433 3 4
,, Overdrawn Current A/cs—		
Town	68,725 10 5	
Country	68,916 15 4	137,642 5 9
,, Loans granted		6,216 15 8
,, Deposits drawn out		4,060 10 6
,, Bills Discounted		5,216 14 10
,, Bills for Collection		2,075 16 4
,, Interest paid on Current A/cs		26 15 7
,, Interest paid on Deposit A/cs		42 8 9
,, Letters of Credit		20 11 8
,, Circular Notes		30 – –
,, Suspense A/c *re* R. Phillips		50 10 2
,, Cheque Stamps		35 15 –
,, Charges		20 10 6
,, Branches, drawn out		1,316,925 13 10
,, Bank o England paid in		616,745 15 6
,, Money at Call		55,026 10 5
,, Bills Payable		75,837 6 10
,, Acceptances		32,650 12 8
,, Promissory Notes Discounted		1,050 15 8
		3,758,108 13 –
Balance to 3rd March		85,915 4 7
		£ 3,844,023 17 7

BRANCHES

Date		*Dr.* £ s. d.	*Cr.* £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . .			*Cr.*	1 175,022 7 6
2	To Day Book	1,316,925 13 10			
2	By do.		1,267,841 18 4	*Cr.*	1,125.938 12 –

CURRENT ACCOUNTS—TOWN

Date		*Dr.* £ s. d.	*Cr.* £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . .			*Cr.*	1,968,426 16 5
2	To Day Book	1,156,804 13 2			
2	By do.		1,308,658 14 7	*Cr.*	2,120,280 17 10

CURRENT ACCOUNTS—COUNTRY

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Cr.	782,564 19 7
2	To Day Book .	347,628 10 2			
2	By do. .		362,500 19 6	Cr.	797,437 8 11

OVERDRAWN CURRENT ACCOUNTS—TOWN

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Dr.	65,050 15 6
2	To Day Book .	68,725 10 5			
2	By do. .		60,785 12 8	Dr.	72,990 13 3

OVERDRAWN CURRENT ACCOUNTS—COUNTRY

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Dr.	43,715 16 8
2	To Day Book .	68,916 15 4			
2	By do. .		52,187 13 8	Dr.	60,444 18 4

DEPOSIT ACCOUNTS

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Cr.	274,850 10 6
2	To Day Book .	4,060 10 6			
2	By do. .		5,860 15 -	Cr.	276,650 15 -

LOANS

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Dr.	1,356,306 15 6
2	To Day Book .	6,216 15 8			
2	By do. .		35,050 15 9	Dr.	1,327,472 15 5

MONEY AT CALL

Date		Dr. £ s. d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . . .			Dr.	686,420 4 2
2	To Day Book .	55,026 10 5			
2	By do. .		24,685 16 2	Dr.	716,760 18 5

CIRCULAR NOTES

Date		Dr. £ s. d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . . .			Cr.	210 – –
2	To Day Book .	30 – –			
2	By do. .		50 – –	Cr.	230 – –

LETTERS OF CREDIT

Date		Dr. £ s. d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . . .			Cr.	275 15 6
2	To Day Book .	20 11 8			
2	By do. .		65 14 10	Cr.	320 18 8

BILLS FOR COLLECTION

Date		Dr. £ s. d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . . .			Dr.	4,658 10 8
2	To Day Book .	2,075 16 4			
2	By do. .		1,475 10 6	Dr.	5,258 16 6

CHEQUE STAMPS

Date		Dr. £ s. d.	Cr. £ s. d.		Balance £ s. d.
19.. Mar. 1	. . . . .			Dr.	650 12 6
2	To Day Book .	35 15 –			
2	By do. .		20 10 6	Dr.	665 17 –

BILLS DISCOUNTED

Date		Dr.	Cr.		Balance
19..		£	£ s. d.		£ s. d.
Mar. 1	. . . . .			Dr.	457,612 18 4
2	To Day Book .	5,216 14 10			
2	By do. .		3,752 10 5	Dr.	459,077 2 9

PROMISSORY NOTES DISCOUNTED

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . . .			Dr.	15,650 10 6
2	To Day Book .	1,050 15 8			
2	By do. .		2,163 10 2	Dr.	14,537 16 –

ACCEPTANCES

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . . .			Dr.	168,725 12 8
2	To Day Book .	32,650 12 8			
2	By do. .		75,837 6 10	Dr.	125,538 18 6

BILLS PAYABLE

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . . .			Cr.	168,725 12 8
2	To Day Book .	75,837 6 10			
2	By do. .		32,650 12 8	Cr.	125,538 18 6

INTEREST ON DEPOSITS

Date		Dr.	Cr.		Balance
19..		£ s. d.			£ s. d.
Mar. 1	. . . . .			Dr.	250 15 6
2	To Day Book .	42 8 9		Dr.	293 4 3

INTEREST ON LOANS

Date		Dr.			Cr.				Balance		
		£	s.	d.	£	s.	d.		£	s.	d.
19..											
Mar. 1	. . . . .							Cr.	6,257	8	4
2	By Day Book .				42	5	10	Cr.	6,299	14	2

INTEREST ON CURRENT ACCOUNTS

Date		Dr.			Cr.				Balance		
		£	s.	d.	£	s.	d.		£	s.	d.
19..											
Mar. 1	. . . . .							Dr.	48	19	6
2	To Day Book .	26	15	7				Dr.	75	15	1

DISCOUNT

Date		Dr.			Cr.				Balance		
		£	s.	d.	£	s.	d.		£	s.	d.
19..											
Mar. 1	. . . . .							Cr.	1,236	10	5
2	By Day Book .				84	7	2	Cr.	1,320	17	7

RATES AND TAXES

Date		Dr.			Cr.				Balance		
		£	s.	d.	£	s.	d.		£	s.	d.
19..											
Mar. 1	. . . . .							Dr.	440	–	–

COMMISSION

Date		Dr.			Cr.				Balance		
					£	s.	d.		£	s.	d.
19..											
Mar. 1	. . . . .							Cr.	200	–	–
2	By Day Book .				25	–	–	Cr.	225	–	–

CHARGES

Date		Dr.			Cr.				Balance		
		£	s.	d.	£	s.	d.		£	s.	d.
19..											
Mar. 1	. . . . .							Dr.	620	14	3
2	To Day Book .	20	10	6				Dr	641	4	9

INVESTMENTS

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . . .			Dr.	1,218,086 10 6

RESERVE

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Cr.	575,000 – –

SUSPENSE

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . . .			Dr.	370 18 6
2	To Day Book .	50 10 2			
2	By do. .		26 2 8	Dr.	395 6 –

PREMISES

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Dr.	124,000 – –

PROFIT AND LOSS

Date		Dr.	Cr.		Balance
19..		£ s. d.	£ s. d.		£ s. d.
Mar. 1	. . . .			Cr.	1,689 14 8

GENERAL LEDGER TRIAL BALANCE

2ND MARCH, 19. .

	Dr. £	s.	d.	Cr. £	s.	d.
Cash	85,915	4	7			
Bank of England	818,337	16	–			
Branches				1,125,938	12	–
Current A/cs—						
Town				2,120,280	17	10
Country				797,437	8	11
Overdrawn Current A/cs—						
Town	72,990	13	3			
Country	60,444	18	4			
Deposit A/cs				276,650	15	–
Loans	1,327,472	15	5			
Money at Call	716,760	18	5			
Circular Notes				230	–	–
Letters of Credit				320	18	8
Bills for Collection	5,258	16	6			
Cheque Stamps	665	17	–			
Bills Discounted	459,077	2	9			
Promissory Notes Discounted	14,537	16	–			
Acceptances	125,538	18	6			
Bills Payable				125,538	18	6
Interest on Deposits	293	4	3			
Interest on Loans				6,299	14	2
Interest on Current A/cs	75	15	1			
Discount				1,320	17	7
Rates and Taxes	440	–	–			
Commission				225	–	–
General Charges	641	4	9			
Investments	1,218,086	10	6			
Reserve				575,000	–	–
Premises	124,000	–	–			
Suspense A/c	395	6	–			
Profit and Loss				1,689	14	8
£	5,030,932	17	4	5,030,932	17	4

PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

The following is a specimen of a Bank Profit and Loss Account and Balance Sheet.

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

	£	*s.*	*d.*		£	*s.*	*d.*
To Interest allowed to Customers	184,219	11	5	By Balance unappropriated brought forward on 30th June, 19.. . . .	127,614	10	6
,, Salaries and other Expenses at Head Office and Branches . . .	286,905	13	7	,, Gross Profit after making provision for Bad Debts and Contingencies, and Income Tax, and including Rebate brought forward . . .	802,862	18	4
,, Rebate on Bills carried to New A/c . . .	32,617	14	4				
,, Bank Premises A/c . .	10,000	–	–				
,, Dividend for half-year to 31st Dec. at 20% per annum £300,000 – –							
,, Balance carried forward . 116,734 9 6							
	416,734	9	6				
	£930,477	8	10		£930,477	8	10

BALANCE SHEET AS AT 31ST DECEMBER, 19..

Liabilities	£	*s.*	*d.*	*Assets*	£	*s.*	*d.*
Subscribed Capital—200,000 Shares of £50 each, £15 per share paid up . . .	3,000,000	–	–	Cash in hand and at Bank of England . . .	6,406,814	10	6
Reserve Fund . . .	2,027,050	10	6	Cash at Call and Short Notice . . .	6,812,084	15	4
Current A/cs . . .	26,862,785	11	8	Investments—			
Deposit A/cs . . .	11,552,861	12	6	Consols and other Government Securities .	3,864,108	10	2
Circular Notes, Letters of Credit, Commission, and Contingencies . .	237,912	11	5	Indian Govt. Stocks .	606,840	15	9
Acceptances for Customers.	3,516,287	12	4	Dominion and Foreign Govt. Securities . .	219,050	10	–
Liabilities by Endorsement on Bills . . .	36,525	10	8	Municipal Stocks . .	2,484,626	12	8
Rebate on Bills not due .	32,617	14	4	Other Investments. .	1,257,084	9	10
Profit and Loss A/c, balance as above . . .	416,734	9	6	Reserve Fund Investments.	2,027,050	10	6
				Bills Discounted . .	4,816,075	12	4
				Loans to Customers and others on Security . .	14,068,150	10	–
				Liability of Customers for—Acceptances as per contra	3,516,287	12	4
				Endorsements as per contra . . .	36,525	10	8
				Premises and Fittings at Head Office & Branches.	1,568,075	12	10
£	47,682,775	12	11	£	47,682,775	12	11

NOTES ON THE BALANCE SHEET

Cash. The order of Assets it will be noted is the cash order, or order of realizability. Cash at Bank of England denotes the balance of the bank's Current Account with the Bank of England. This balance acts as a reserve in cases of emergency.

Money at Call and Short Notice. This item denotes loans to bill brokers, stockbrokers, and others on security called "Floaters." Advances are also made on dock warrants, consignments, produce documents, etc.

Bills Discounted. This amount represents the total of the bills discounted which have not yet matured.

Loans and Advances. This item denotes the loans made to its customers either as separate transactions or as overdrafts on current account, usually against the deposit of some security.

Liability of Customers for Acceptances and Endorsements. These items denote bills which the bank has accepted or endorsed on behalf of its customers. This is usually done in the case of foreign bills, as it greatly facilitates their negotiation abroad. The customer is, of course, liable to the bank, while the bank is liable to parties abroad. These items, therefore, appear on both sides of the Balance Sheet.

Rebate on Bills. As at balancing time many of the bills discounted will not have matured, it follows that all the discount charged will not have been earned during the current period. The unexpired portion of such discount is, therefore, debited to the Profit and Loss Account, and carried forward to the next half-year's accounts.

STATUTORY STATEMENT

Under the Companies Act, 1948, Section 433, every Limited Banking Company shall, before it commences business, and also on the first Monday in February and the first Tuesday in August of every year during which it carries on business, make a statement in the form set out in the Thirteenth Schedule to this Act, or as near thereto as circumstances permit.

THIRTEENTH SCHEDULE

FORM OF STATEMENT TO BE PUBLISHED BY BANKING AND INSURANCE COMPANIES, AND DEPOSIT, PROVIDENT, OR BENEFIT SOCIETIES

[1] The share capital of the Company is £ , divided into shares of each.

The number of shares issued is .

Calls to the amount of £ per share have been made, under which the sum of £ has been received.

The liabilities of the Company on the first day of January (or July) were—

Debts owing to sundry persons by the Company—

On judgment, £ .
On speciality, £ .
On notes or bills, £ .
On simple contracts, £ .
On estimated liabilities, £ .

The assets of the Company on that day were—

Government securities (*stating them*).
Bills of Exchange and promissory notes, £
Cash at the bankers, £ .
Other securities, £ .

[1] If the Company has no share capital, the portion of the statement relating to capital and shares must be omitted.

A copy of the statement must be put up in a conspicuous place in the registered office of the company, and in every branch office or place where the business is carried on.

QUESTIONS

1. State briefly the services rendered by the modern banker to commerce and industry.

2. How does a banker make his profits? What are the special features of Bank book-keeping?

3. Explain briefly the use of the following books: (1) Receiving Cashier's Counter Cash Book, (2) Paying Cashier's Counter Cash Book, (3) Received Waste Book, (4) Goldsmith's Book, (5) Bills Received for Collection Register, (6) Bills Received for Discount Register, (7) Discount Ledger.

4. What are Current Accounts? What is the practice with regard to interest thereon?

5 Explain the following: (*a*) Deposit Account, (*b*) Bank Pass Book, (*c*) Bankers' Clearing House, (*d*) Statutory Statement.

EXERCISE XXIII

1. What do you understand by the "slip system of Ledger posting"? To what classes of business can the system be advantageously applied? Illustrate your answer by giving *pro forma* posting slips applicable to the business you select.

(*R.S.A.*)

2. After writing up the Profit and Loss Account, the general Ledger balances of the Conservative Bank, Ltd., as on 31st December, were as follows: Paid up Capital, £1,500,000; Cash at Bank of England and in hand, £2,600,980; Customers' Current and Deposit Accounts, £17,580,000; Bills Discounted, Loans and Advances, £14,482,000; Freehold Premises, £380,000; Rebate on Bills discounted, not yet due, carried to next account, £24,300; Reserve Fund, £1,200,000; English Government Securities, £1,250,000; other Government Securities, £520,000; Profit and Loss Account (undistributed balance), £110,680; Securities pledged with Public Bodies, £81,000; Indian and Colonial Securities, £1,101,000.

On the same date (31st December) the acceptances on behalf of customers, and for which they were liable, appeared in the "Acceptances Book" of the Bank at £1,725,420.

Prepare a Balance Sheet as on 31st December.

(*London Chamber of Commerce.*)

3. Describe briefly the books of account which you would expect to find in use in a bank. State what the "General Ledger" of a bank should contain, and what information you would expect it to afford.

(*London Chamber of Commerce.*)

4. On 25th January, John Smith called at the Union Bank of London and paid in the following—

	£	s.	d.
Coin	25	-	-
Bank of England Notes	50	-	-
Cheque drawn on the Old Bank, York . . .	62	-	-
Cheque drawn on the Joint Stock Bank, Princess Street, E.C.	41	-	-
	£178	-	-

Trace the history of the above items as they would appear in the books of the Union Bank of London.

(*R.S.A.*)

5. The undermentioned items appear in the General Ledger balances of the Loamshire Bank, Ltd.—

(*a*) "Cash in hand, £2,462,986 10s. 6d."

What does this item include, and where would you place it in the published accounts of the Bank?

(*b*) "Loans at short notice, £6,541,241 19s. 10d."

Explain briefly what this item would consist of, and denote its proper place in the published accounts of the Bank.

(c) "Liabilities of customers on acceptances, £2,572,481 16s. 8d." What does this item mean, and how would you deal with it in the published accounts of the Bank? *(London Chamber of Commerce.)*

6. What do you understand by "Rebate on bills discounted," and how would you treat this item when preparing the Profit and Loss A/c and Balance Sheet of a bank? *(R.S.A.)*

7. From the following particulars draw up the account of Robert Collins, 12 Lupus Avenue, Leighton, as it would appear in the Bank's Current Account Ledger on 30th June—

			£	s.	d.				£	s.	d.
19..						19..					
Jan.	5	To cheque, Jones .	115	–	–	Dec. 31	By Balance		1,144	7	6
Feb.	3	,, ,, Wilson .	20	–	–	19..					
Mar.	3	,, ,, Trumper .	75	1	–	Feb. 14	,, Cash	.	240	–	–
Apr.	5	,, ,, Freeman .	24	–	–	Apr. 3	,, ,,	.	64	–	–
	16	,, ,, Paley .	41	–	–	May 1	,, ,,	.	76	–	–
May	12	,, ,, Longe .	20	13	6	23	,, ,,	.	190	–	–
	17	,, ,, Fisher .	54	5	–						
June	2	,, ,, Smith .	74	4	8						
	15	,, ,, Self .	40	–	–						

Interest to be allowed at 2% p.a. on daily balances, and $\frac{1}{4}$% to be charged on turnover.

8. From the following particulars draw up the account of Frederick Stevens, 27 Montgomery Mansions, Leverbridge, as it would appear in the Bank's Current Account Ledger on 30th June—

			£	s.	d.				£	s.	d.
19..						19..					
Dec.	31	To Balance . .	554	5	6	Jan. 26	By Cash	.	137	1	2
19..						Feb. 19	,, ,,	.	130	5	6
Jan.	17	,, cheque, Self .	20	–	–	Mar. 29	,, ,,	.	116	4	2
Feb.	12	,, Temple .	74	5	6	May 1	,, ,,	.	98	5	2
Mar.	3	,, ,, Grey .	100	–	–						
Apr.	2	,, ,, Self .	40	–	–						
	23	,, ,, Williams .	35	–	6						
	26	,, ,, Roberts .	54	12	2						
June	21	,, ,, Mills .	26	4	2						
	27	,, ,, Thomson	160	4	8						

Interest to be charged at 1% over Bank Rate, with a minimum of 4% p.a. On 31st December the Bank Rate was 3%, on 26th January 3½%, on 29th March 4%, on 21st June 4½%. Overdraft limit, £600. One-quarter per cent also to be charged on turnover.

9. R. Craven opens a Bank Account on 1st January with the Rosedale Banking Company and deposits on that day £1,000. He pays in as follows: 20th January, £500; 20th March, £600; 20th May, £700; and he draws out on 20th February, £1,200, on 20th April £1,000, and on 20th June £500. Calculate the Bank Interest, counting 5% on customer's debit balances and 2% on credit balances, and close the account on 30th June. *(Incorporated Accountants.)*

10. From the following particulars of a Bank Pass Book calculate the Interest to 30th June, charging 5% on debit balances, and allowing $2\frac{1}{2}$% on credit balances—

J. Gaukroger in account with the Blankshire Banking Company, Limited.

Dr.			£	s.	d.	*Cr.*			£	s.	d.
Jan.	1	To Balance	2,710	4	–	Jan. 1	By Cash		27	10	–
	15	,, Cash	280	12	–	30	,,	,,	824	6	–
Feb.	1	,, ,,	420	3	–	Feb. 29	,,	,,	4,172	17	–
	15	,, ,,	36	14	–	Mar. 31	,,	,,	718	5	–
Mar.	15	,, ,,	910	2	–	May 31	,,	,,	1,500	–	–
Apr.	15	,, ,,	2,020	3	–	June 30	,,	,,	180	–	–
May	15	,, ,,	315	–	–						
June	15	,, ,,	280	–	–						

(*Incorporated Accountants.*)

11. You are asked to devise as simple a method as possible to enable a firm to check its bank interest. Exemplify your method by ascertaining the rate allowed for credit balances in the following account, where it is known that the charge for overdraft is 5%—

J B in account with the Northland Banking Company. On 1st April the balance to the credit of J B was £250. J B paid in £850, £170, £200 and £650 on 17th April, 20th May, 13th June and 3rd July respectively; and drew out £400, £1,070, £500 and £400 on 11th May, 4th June, 19th June and 30th July respectively. The total net sum allowed for Interest to 31st August was 12s. 11d. only.

(*Incorporated Accountants.*)

12. The General Ledger of the Loamshire Bank, Ltd., contained the undermentioned balances as on 31st December. Explain briefly what the figures represent, and where they would appear in the Balance Sheet of the Bank.

	£
(1) Current Accounts A/c	12,674,491
(2) Investments A/c	7,832,922
(3) Rebate on Bills not due	12,466
(4) Short Loans A/c	5,432,768

(*R.S.A.*)

13. Explain briefly the methods employed in order to keep the books of a Bank constantly posted.

On 31st July, George Reimers paid in the following to his Bank in the City—

	£
Cheque (Geo. Smith, London)	15
,, (Robt. Robinson, London)	20
Gold	10
Bank of England Notes	20

Describe the passage of the above items through the books of the Bank from the moment of their receipt until credited to the account of George Reimers.

(*R.S.A.*)

14. From the following figures taken from the books of the Camberwell Banking Company, Limited, you are requested to draft as at 31st December (*a*) a Trial Balance, (*b*) a Balance Sheet, (*c*) a Profit and Loss A/c; and then append, as Auditor, your certificate for publication and presentation to the shareholders.

	£		£
Current and Deposit A/cs	7,731,450	Cash in hand and at Bank of England	1,584,750
Acceptances on behalf of Customers	1,200,000	Money at Call and Short Notice	274,250
Capital subscribed, 50,000 shares of £40 each, £25 per share paid	1,250,000	Consols (Reserve Fund)	600,000
Reserve Fund (invested in Consols)	600,000	Consols and Securities guaranteed by British Government	825,000
Profit and Loss A/c, balance to Credit, 1st January	15,300	Colonial and Railway Stocks	637,500
Interest accrued and paid	25,500	English Corporation Stocks	235,500
Current Expenses, Salaries, Rent, etc.	71,250	Bills Discounted	379,500
Amount added to Staff Retirement Fund	3,000	Loans and Advances	4,665,000
Premises A/c, amount written off	22,500	Bank Premises, Furniture, etc.	337,500
Gross Profit for the year after providing for Bad and Doubtful Debts	244,500	Freehold and Leasehold Properties	180,000

15. Name three of the accounts which you would expect to find in the General Ledger of a Bank. Briefly explain their purpose, and describe the sources from which they have been written up. (*R.S.A.*)

16. The understated items have been extracted from the accounts of a Bank. Explain briefly what they represent—

"Liabilities of Customers on Acceptances as per contra." (Cr. side of Balance Sheet.)

"Rebate on Bills not due." (Dr. side of Balance Sheet.)

"Money at Call and Short Notice." (Cr. side of Balance Sheet.)

"Bills Discounted." (Cr. side of Balance Sheet.)

(*R.S.A.*)

17. The Weyside Co., Ltd., was formed for the purpose of purchasing the old-established business of Richard Blank, and was duly registered with a nominal Capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 Ordinary Shares of £1 each, and 100.000 6 per cent Preference Shares of £1 each.

The whole of the Preference Shares and 52,000 of the Ordinary Shares were offered for public subscription, payable, in both classes of shares, as follows—

2s. 6d. per share on application.
2s. 6d. ,, ,, allotment.
5s. ,, ,, 15th January (first call).
5s. ,, ,, 15th February (second call).
The balance as and when required.

The whole of the shares offered to the public were applied for and allotted in due course.

The balance of the Ordinary Share Capital was issued as fully paid to the vendor as part purchase price of his business.

500 Ordinary Shares applied for by *John Smith*, upon which the application money only had been paid, were subsequently forfeited in accordance with the Articles of Association.

Pass the entries necessary to record the above transactions through the books of The Weyside Co., Ltd., and show how they would appear in the Company's Balance Sheet. (*London Chamber of Commerce.*)

CHAPTER XXIV

EXECUTORSHIP ACCOUNTS

Definition. Executorship accounts are those accounts which record (1) particulars of the property of which a person dies possessed; and (2) the realization, administration, and distribution of such property by the deceased's executors or administrators.

The Distinction between Executors and Administrators. An executor is appointed by the will of a deceased person to administer and distribute his property in accordance with his wishes as expressed in the will; the executor's authority being derived from the will. An administrator is appointed by the Court to deal with the estate of the intestate person (i.e. one who dies without making a will), and the administrator (whose authority is derived from the Court's appointment) is usually required to enter into a bond to administer and distribute the deceased's property in accordance with the law relating to intestate persons' estates.

Administrators, however, are also appointed in certain other circumstances, including the following—

(1) Administration *cum testamento annexo* (with the will annexed). This grant is made when a testator omits to name an executor in his will or when a named executor refuses or is unable to act.

(2) Administration *de bonis non.* If an executor dies before completing his duties, his executorship is transmissible to his own executor, hence the latter would continue and complete the administration of the original testator's estate. But where the executor dies without appointing an executor, the appointment is not transmissible to an administrator, and a grant of letters of administration *de bonis non administratis* (of the goods not administered) is made to the nearest next-of-kin of the original testator.

(3) Administration *durante absentia*, i.e. during the absence abroad of the person legally entitled to the administration.

(4) Administration *durante minore aetate*, i.e. during the minority of an executor or of a person entitled to act as administrator.

(5) Administration *durante dementia*, i.e. during the lunacy of the person entitled to act as sole executor or administrator.

(6) Administration *pendente lite*, i.e. pending litigation as to the validity of the deceased's will.

(7) Administration *ad litem*, i.e. for purposes of litigation only.

Trustees. A trustee is a person who holds property in trust for the benefit of other persons. If a testator's will provides that the whole or some part of the estate is to be held in trust for the benefit

of some named person or persons, the executor becomes a trustee. In most cases some portion of the estate is invested and the income thereof is payable to certain persons known as life-tenants either for a specified period or until the happening of a specified event, when the capital reverts to other persons termed "remaindermen" or "reversioners." The life-tenant may also be the remainderman, as, for example, where the will provides that the income from the property is payable to a named person until he attains a specified age, when the property itself is to be handed over or transferred to that person.

The Duties of Executors and Administrators are as follows—

(1) To bury the deceased.

(2) To prepare and submit to the Inland Revenue an account showing the deceased's assets and liabilities and pay estate duty thereon.

(3) Executors to apply for probate of the deceased's will; administrators to apply for a grant of letters of administration.

(4) To get in and, where necessary, realize all the deceased's property.

(5) To pay funeral, testamentary, and administration expenses, and debts owing by the deceased.

(6) To pay legacies.

(7) Executors to distribute or deal with the residue in accordance with the deceased's will; administrators to distribute the deceased's estate in accordance with the law relating to intestate persons' property.

(8) To keep accurate accounts of the dealings in the deceased's estate, to render copies of the accounts to the persons entitled thereto, and to obtain a discharge upon the completion of the administration.

The Administration of Estates Act, 1925, confers upon the executors and administrators the same rights of action as the deceased would have had if alive—

(1) For the recovery of debts due to the deceased and for injury to or right in respect of his personal estate.

(2) For any injury committed to the real estate of the deceased within six months before his death, provided such action is brought within one year after his death.

Similarly, any action may be maintained against the personal representative of a deceased person for any wrong committed by the deceased within six months before his death to another person, but the action must be brought within six months after the personal representative has taken out probate or letters of administration, as the case may be.

Probate and Letters of Administration. To obtain probate, the executor must obtain the deceased's will and a copy of the death certificate; he must prepare the estate duty account, showing the whole of the property passing on the death of the deceased, and swear an affidavit deposing as to the accuracy of the account. These documents must be lodged with the Probate Registry for the district in which the deceased resided or at the Principal

Registry in London. In the absence of a will, the nearest next-of-kin applies for letters of administration.

Probate is a bound document containing a copy of the will (issued under the seal of the Probate Court) with a certificate stating the name(s) of the executor(s), the gross value of the estate and the amount of the estate duty paid. "Letters of administration" consists of a certificate of the appointment of the administrator(s), and also states the gross value of the estate and the amount of the duty paid.

Probate and letters of administration respectively form the executor's and administrator's authority to deal with the estate.

Classes of Property. Property **passing** on the death of a person is divided into two classes, realty and personalty. Realty consists of freehold property, whilst personalty includes all movable goods and chattels. Leasehold property, irrespective of the length of the lease, is included in personal estate and is termed "chattels real" (immovable personalty).

Estate Duty. This is a graduated duty payable on the total net value of all property, real and personal, which passes at the death of a person or of which that person was competent to dispose. From time to time, the duties payable have varied, but the space available does not permit of detailed particulars being given of the various alterations.

The rate of duty on the estate of all persons dying after 31st July, 1949, fixed by the Finance Act, 1949, is shown below—

Principal Value of Estate				Rate per Cent of Duty
	£		£	
		Not exceeding	2,000	*Nil*
Exceeding	2,000	and not exceeding	3,000	1
,,	3,000	,, ,,	5,000	2
,,	5,000	,, ,,	7,500	3
,,	7,500	,, ,,	10,000	4
,,	10,000	,, ,,	12,500	6
,,	12,500	,, ,,	15,000	8
,,	15,000	,, ,,	17,500	10
,,	17,500	,, ,,	20,000	12
,,	20,000	,, ,,	25,000	15
,,	25,000	,, ,,	30,000	18
,,	30,000	,, ,,	35,000	21
,,	35,000	,, ,,	40,000	24
,,	40,000	,, ,,	45,000	28
,,	45,000	,, ,,	50,000	31
,,	50,000	,, ,,	60,000	35
,,	60,000	,, ,,	75,000	40
,,	75,000	,, ,,	100,000	45
,,	100,000	,, ,,	150,000	50
,,	150,000	,, ,,	200,000	55
,,	200,000	,, ,,	300,000	60
,,	300,000	,, ,,	500,000	65
,,	500,000	,, ,,	750,000	70
,,	750,000	,, ,,	1,000,000	75
,,	1,000,000			80

Marginal Relief. Section 13 (1) of the Finance Act, 1914, provides a concession where the value of the estate is slightly in excess of a figure where the rate changes. In such cases the total duty payable is the highest amount of duty at the previous lower rate plus an amount equal to the excess over the particular maximum.

Example. Estate valued at £15,100.

Duty at 8% on £15,000.	£1,200
Add excess over £15,000	100
Total Duty payable	£1,300

In the absence of this concession, the total duty payable would be 10 per cent on £15,100 = £1,510.

Gifts Inter Vivos (during lifetime). Gifts made by the deceased within five years of the date of death are liable to estate duty unless any such gift (1) was part of the deceased's reasonable normal expenditure; (2) did not exceed £100 to any one person; (3) was made in consideration of marriage; or (4) was made for charitable or public objects. Charitable, etc., gifts exceeding £100 are liable to estate duty if made within twelve months of death.

Donationes Mortis Causa. A gift of personalty in anticipation of the donor's death, made conditionally upon its becoming absolute only on death and revocable during the donor's lifetime, is also liable to estate duty.

Unless the will otherwise directs, the estate duty on *donationes mortis causa* and gifts *inter vivos* is payable by the recipient and not by the executors. Particulars of the property and its value, however, must be included in the estate duty account, and if the executors are called upon to pay the duty, they must recover the amount from the recipients.

Rapid Succession Relief. Section 15, Finance Act, 1914, provides that where property consisting of land or businesses (but not a business carried on by a company) becomes liable to estate duty within five years of the same property having previously paid duty, the following reductions are made in the duty payable on the second death—

	Reduction.
Where death takes place within 1 year of the first death . .	50%
,, ,, ,, 2 ,, ,, . .	40%
,, ,, ,, 3 ,, ,, . .	30%
,, ,, ,, 4 ,, ,, . .	20%
,, ,, ,, 5 ,, ,, . .	10%

If, however, the value of the property has increased, these percentages are calculated on the value at the date of the first death.

Where the estate duty has to be paid to a foreign government on personalty in that foreign country, the amount of duty paid may be deducted (Schedule No. 2) as a debt owing by the deceased. Colonial estate duty payable on property in a British colony or possession, however, may be deducted from the British estate duty payable in Great Britain in respect of such property.

Deductions from the gross value of the estate are allowable for—

(1) All debts owing by the deceased for consideration given in money or money's worth to persons resident in Great Britain. Debts owing to persons resident abroad cannot be deducted unless they have been contracted to be paid in Great Britain or charged on property in Great Britain. (Schedule No. 1, first part.)

(2) Reasonable funeral expenses, but not including the cost of mourning, tombstone, etc. (Schedule No. 1, second part.)

Allowances may also be claimed for expenses (not exceeding 5 per cent on the value of the property) incurred in administering or realizing foreign property.

Interest. The estate duty on personalty is deemed to be due and payable as on the date of death, and interest at the rate of 2 per cent per annum [Finance Act, 1943] is charged from the day after death to the date of the delivery of the affidavit. Interest is not chargeable on the estate duty on realty until twelve months after death unless it is sold, when interest is payable from the date of the completion of the sale.

Realty. The estate duty on real property may be paid by eight equal yearly or sixteen equal half-yearly instalments, with interest at 2 per cent per annum from the date at which the first instalment is due, viz. twelve months from date of death. The Inland Revenue, however, will accept part of the estate itself as payment of the duty on realty and, in that event, the conveyance is exempt from stamp duty.

The estate duty on the real property is payable out of the property itself, but the interest on this duty is a charge on the income arising out of the property.

Corrective Affidavit. It very frequently occurs that, at the time of lodging the Estate Duty Account with the Inland Revenue, it is not possible to ascertain (1) the true total of all the deceased's property liable to estate duty, (2) the full amount of the liabilities which should be deducted, or (3) the true value of some portion of the estate and, accordingly, the estate duty account is declared to be true and correct, "as far as, at present, can be ascertained."

Further, errors may subsequently be discovered either in the undervaluation or in the overvaluation of assets or liabilities. In all these cases, corrective affidavits giving full particulars must be lodged so that the estate duty on the total may be adjusted and any excess duty paid or refunded as the case may require.

Estate Duty Account. As already suggested, this account is required by the Inland Revenue for the assessment of estate duty; it must be rendered on the official forms supplied by the Inland Revenue authorities, and lodged with the Probate Registry at the same time that application is made for the grant of probate or letters of administration.

Valuation of the Estate. The executor should prepare an inventory of the whole of the deceased's property and have the various assets valued by professional valuers or other responsible persons.

Investments and Stock Exchange securities are valued at the market price as at the date of death. Where two prices are given in the quotation (e.g. A. B. Co. Stock 60–62 per £100 stock), one-fourth of the difference is added to the lower price and, therefore, the above example would be valued at 60½ for estate duty purposes.

Accrued income (rents, interest, dividends, etc.) up to the date of death must be included. Where, however, Stock Exchange securities are quoted *cum div.*, the quotation is deemed to include the accrued income and no adjustment is needed. Similarly, charges against the estate for accrued interest on mortgage, etc., must also be brought into account.

For public funds, most of which are quoted "ex div." for about one month prior to the date when the interest is due and payable, the full dividend must be added to the market *ex div.* price, since a seller at the quoted price would get that price and would also receive the dividend.

If the deceased was a partner in a firm, the value of his interest in the partnership must be stated in one amount, but if the deceased was in business on his own account, then the whole of the assets and liabilities of the business as at the date of death must be included in the account.

Example. Prepare the Estate Duty Account in respect of the property of Arthur Mills who died on 31st August, 1949. Ignore income tax.

	£
Cash in House	25
Cash at Bank on current account	200
Cash on Deposit at Bank	2,500
Household Furniture and Effects valued at	1,250
Insurance Policy with Bonus	3,500
Freehold Premises occupied by deceased at date of death valued at	5,000
(Subject to mortgage of £2,500 at 5% per annum, interest payable half-yearly on 1st January and 1st July.)	
Loan advanced by deceased on mortgage, with interest at 6% p.a., payable half-yearly on 30th June and 31st December	5,000
£8,000 Consols (2½%), valued at 70½ ex div.	5,640
Quarter's dividend on Consols due 5th October.	
£10,000 4½% Exe Corporation Debentures, Interest payable half-yearly on 31st March and 30th September, valued at 91 cum. div.	9,100

The funeral expenses (including tombstone, £20) amounted to £80, and the debts owing by deceased at date of death were £280.
The affidavit was lodged on 30th November, 1949.

ESTATE DUTY ACCOUNT

First Part. Personal Property

	£	s.	d.	£	s.	d.
Cash in House				25	-	-
Cash at Bank on current account				200	-	-
Cash at Bank on deposit account				2,500	-	-
Household Furniture and Effects				1,250	-	-
Insurance Policy with Bonus				3,500	-	-
Loan on Mortgage				5,000	-	-
Interest accrued thereon, 2 months at 6%				50	-	-
£8,000 2½% Consolidated Stock at 70½ ex div.				5,640	-	-
One Quarter's Interest thereon, due 5th Oct.				50	-	-
£10,000 4½ Exe Corporation Debentures valued at 91 cum div.				9,100	-	-
				27,315	-	-
Deductions						
Creditors as per Schedule	280	-	-			
Funeral Expenses (Tombstone not allowed.)	60	-	-			
				340	-	-
Net Personalty				£26,975	-	-

Second Part. Real Property

	£	s.	d.	£	s.	d.
Freehold Premises situate at . . . in occupation of deceased at date of death				5,000	-	-
Less Mortgage thereon	2,500	-	-			
„ Interest accrued 2 months at 5%	20	16	8			
				2,520	16	8
Net Realty				£2,479	3	4

SUMMARY OF AFFIDAVIT

	£	s.	d.
Net Personalty	26,975	–	–
Net Realty	2,479	3	4
Net Aggregate Value of Estate	£29,454	3	4
Duties Payable—			
18% on net personalty, £26,975	4,855	10	–
18% on net realty, £2,479 3s. 4d.	446	5	–
Interest on net personalty duty— 2% on £4,855 10s. for 3 months	24	5	7
Total Duty and Interest payable	£5,326	–	7

APPORTIONMENT

Definition. Apportionment is the legal or equitable division of sums of money—either receipts or payments—amongst the persons beneficially entitled thereto or interested therein.

In its application to executorship accounts, apportionment is necessary because—

(1) The life-tenants, i.e. the persons entitled to the income of the estate, are entitled only to that portion of the income which has accrued subsequent to the date of death, hence rents, interest, dividends, etc., covering a period before and after death, must be apportioned between the estate and the life-tenant. The portion of the income which has accrued to date of death is regarded as capital and forms part of the estate which ultimately passes to the remainderman.

(2) In certain cases, expenditure incurred and losses on realization are divisible between the life-tenant and the remainderman (see *post*).

The Apportionment Act, 1870, provides that "all rents, annuities, dividends, and other periodical payments in the nature of income (whether reserved or made payable under an instrument in writing or not) shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of *time* accordingly." An apportionment made under this Act is termed a legal apportionment as distinct from an equitable apportionment, which is based on Case Law.

Profits of a partnership and the profits from a voyage of a single ship privately owned are not apportionable; if received after death, such profits are regarded as wholly income. Rent payable in advance also is not apportionable; and if received before death is wholly capital, even and although the rent covers a period extending beyond the date of death.

Interim Dividends are considered as being received on account of the full dividend for the complete year. When the final dividend is received, the total for the year is ascertained and the apportionment made upon that basis. Interim dividends received before death are treated as capital, and no alteration can be made even if an apportionment shows that capital has received more than its theoretically correct share of the dividend.

ARREARS OF CUMULATIVE PREFERENCE DIVIDENDS

Where dividends on Cum. Pref. shares are in arrear at date of death, but are received subsequently, such dividends are apportioned over the period covered by the Profit and Loss Appropriation Account out of which they are expressed as payable. (*In re Wakley, Wakley* v. *Vachell* (1920).)

For example, a testator dies on 30th September, 1949, holding shares in a company which, owing to losses, is unable to pay its cum. pref. dividend for the year 1948. During 1949, however, the losses are made good and sufficient profits are earned to pay one year's dividends. This dividend, when received, is apportioned over the year 1949; nine months to 30th September being capital and the remaining three months income.

Dividends paid out of profits wholly earned in a period subsequent to death are wholly income, although the dividend may be declared for a period earlier than the date of death.

Apportionment of Payments. All payments (outgoings) in respect of rent, ground rent, rates and taxes, etc., which cover periods before and after the date of death are apportionable in the same manner as income received.

Executorship Expenses. The expenses incurred in proving the will, funeral expenses, estate duty, expenses of realizing and protecting the estate are chargeable against capital, but interest on estate duty, and all expenses of carrying on the trust are chargeable against income.

Changes of Investments. On the sale of investments, the whole of the proceeds belong to capital, and profits or losses arising from such sale are applicable solely to capital; they are not apportionable. Further, where the investments are sold, the life-tenant is not entitled to any apportionment of the proceeds. On the other hand, if the sale proceeds are re-invested, the life-tenant is entitled to the full amount of the next dividend on the new investment. Where, however, the purchase is made *cum div.* after the dividend has been declared, the dividend (when received) is credited to capital (*re Sir Robert Peel's Settled Estates*, 1910).

Example of Apportionment of Rent and Sch. A Income Tax. A testator died on 10th November, 1949, and his estate

included House Property let at £120 per annum, the rent being payable on the usual quarter days. The assessment for income tax (Sch. A) was on £90 at 9s. in the £.

Rent due 25th December, 1949, £30 (29th Sept. to 25th Dec. = 87 days).

29th Sept. to 10th Nov. = $\frac{42}{87}$ of £30 =	£14 9 8	Capital.
10th Nov. to 25th Dec. = $\frac{45}{87}$ of £30 =	15 10 4	Income.
	£30 - -	

Income Tax Assessment for year 6th April, 1949, to 5th April, 1950 = £90 at 9s. = £40 10s.

Apportionment—

6th April to 10th Nov. = $\frac{219}{365}$ of £40 10s. =	£24 6 -	Capital.
10th Nov. to 5th April = $\frac{146}{365}$ of £40 10s. =	16 4 -	Income.
	£40 10 -	

The proportion of rent accrued to date of death, £14 9s. 8d., is included in the estate duty account as part of the deceased's property, whilst the proportion of unpaid income tax is shown as a liability due from the deceased.

When the rents are received, similar apportionments are made between capital and income. It must be borne in mind, however, that the income tax is payable (in the first instance) by the tenant on 1st January; and the tenant deducts the tax from the next payment of rent. Hence this deduction usually occurs in the March quarter.

For the sake of clearness, some authorities consider it desirable for the gross amount of rent to be entered in the Cash Book as though it were received in full, and for the income tax deduction to be entered on the credit side of the Cash Book as though it were an actual payment. If this method is adopted, the Cash Book entries will appear as follows—

CASH BOOK

Dr. *Cr.*

	Receipts	Income	Capital		Payments	Income	Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1949 Dec. 28	To Property A/c: Rent to 25th Dec., £30, 42 days Capital. 45 " Income.	15 10 4	14 9 8	1950 Mar. 25	By Income Tax on Property .	16 4 -	24 6 -
1950 Mar. 25	" Property A/c: Rent to 25th March .	30 -					
June 30	" Property A/c: Rent to 30th June . .	30 -					
Sept. 29	" Property A/c: Rent to 29th Sept. . .	30 - -					

EQUITABLE APPORTIONMENTS

This class of apportionments is governed by certain rules of Chancery, and has for its object the equitable adjustment of the relative rights of the life-tenant and the remainderman.

An "equitable" apportionment is distinguished from a "legal" apportionment—the former being governed by case law and the latter by the Apportionment Act, 1870.

The Rule in Howe v. Lord Dartmouth, 1802. This rule is applied in those cases where a residuary bequest of personalty consists of property of a wasting and hazardous or reversionary nature, and is based on the principle that the capital must be preserved for the benefit of *all* parties interested therein. Unless the will specifically directs that the wasting or hazardous property is to be retained for the benefit of the life-tenant, the Court assumes that it was the testator's intention that both the life-tenant and the remainderman should share in the benefits derivable from the capital.

Obviously, the wasting or hazardous property may yield a certain enjoyment or a large income for a few years, but eventually the residual value of the property may be considerably reduced to the detriment of the remainderman. Hence the rule (subject to the terms of the will) that such wasting property should be realized and the proceeds invested in authorized trustee securities. The life-tenant takes the income therefrom and the capital is preserved intact for the remainderman.

For the period from the date of death to the date of realization of the wasting asset, the life-tenant is entitled to interest at, say, 4 per cent per annum on the value of the asset at the date of the death.

This rule applies only to bequests of personalty. It does not apply to real estate, nor, since the Law of Property Act, 1925, to leaseholds (*re Brooker*, 1926).

Where unauthorized investments (not necessarily of a wasting, hazardous, or reversionary nature) are improperly retained by the executors, the same principle is applicable. (*Dimes* v. *Scott*, 1828, and *Brown* v. *Gellatly*, 1867.) The conversion should take place, if possible, within the executor's year otherwise he may have to justify the delay.

Loss on Realization of a Mortgage Security. It was decided in *re Atkinson*, 1904, that where a loss is sustained on the realization of a mortgage security, the principal sums owing, and all arrears of interest, are to be added together and the amount realized on sale of the security is to be apportioned between capital and income in the proportion which the total interest in arrear bears to the principal sum owing on the mortgage.

For example, property is mortgaged for £1,000, but the interest falls in arrear. Subsequently, the trustees take possession and the property is sold for £990; the arrears of interest amounting to £100. Applying the rule in *re Atkinson*, the sale proceeds are divided between the life-tenant and remainderman as shown in the following account.

Dr. MORTGAGE ON PROPERTY *Cr.*

	Income	Capital		Income	Capital
	£	£		£	£
To Balance . .		1,000	By Cash, £990 (proceeds of sale) apportioned thus—		
,, Transfer to Income Account .. .	90		Capital: $\frac{1,000}{1,000 + 100}$ of £990		900
			Income: $\frac{100}{1,000 + 100}$ of £990	90	
			,, Transfer to Estate (loss)		100
	£90	£1,000		£90	£1,000

Reversionary Interests. Where the estate includes reversionary interests, the rule in *re Earl of Chesterfield's Trusts* decides the method of apportionment between the life-tenant and the remainderman. In such cases, the reversionary interest does not produce income, and the life tenant cannot receive anything until the reversion is realized or falls into the estate. The rule provides that it must be ascertained what sum, invested at the date of the testator's death at 4 per cent compound interest, *less* income tax, would, on the date of realization, amount to the sum received; this amount is capital, and the balance is income.

Example 1. A died on 31st October, 1949, bequeathing a reversionary interest to B for life, with remainder to C. The reversion fell into possession on 31st October two years later, and consisted of £2,000 5 per cent X Corporation Stock, then valued at 90. Show the apportionment between the life-tenant and the remainderman, taking income tax at 9s. in the £.

4% less tax at 9s. = 2·2% actual.

The principal which will amount to £1,800 in two years at 4 per cent compound interest with yearly rests less tax at 9s.; or, in other words, the present value of the reversion at the date of death

$$= £\frac{1{,}800}{102{\cdot}2 \times 102{\cdot}2} = £1{,}723\ 6s.\ 10d.$$

The amount due to income is—

	£	s.	d.
Year 1—4% on £1,723 6s. 10d., less tax at 9s.	37	18	2
Year 2—4% on £1,761 5s. "	38	15	-
Tota	£76	13	2

The £1,800 is therefore apportionable: Capital, £1,723 6s. 10d.; income, £76 13s. 2d.

The Rule in Allhusen v. Whittell. This rule is based on the assumption that the payment of the deceased's debts and legacies is not made until the end of the first year, and that, as the money retained through the delay produces income, the life-tenant's income is proportionately increased. Accordingly, the rule provides that as the moneys required for payment of expenses, debts, and legacies, etc., are not part of the residue, a life-tenant is not entitled to interest thereon whilst the moneys remain in the hands of the executors; and, therefore, the payments must be borne rateably by capital and the first year's income.

Example 2. Estate valued at £25,000 gross; the first year's income is £1,000; and the debts, expenses, legacies, etc., amounted to £5,200. Under the rule, the apportionment of the payments is as follows—

$$\text{Capital: } \frac{25{,}000}{26{,}000} \text{ of } £5{,}200 = £5{,}000$$

$$\text{Income: } \frac{1{,}000}{26{,}000} \text{ of } £5{,}200 = 200$$

$$£5{,}200$$

£200 is, therefore, charged against the first year's income and the life-tenant receives the balance, viz. £800.

In practice, however, debts and legacies are often paid before the end of the "executor's year," and the above rule was modified in *re McEuen*, 1913, to the extent that the life-tenant is entitled to the whole of the first year's income subject to a deduction of interest at 4 per cent per annum upon the capital sum which would, with such interest, make up the total amount paid for debts, expenses, legacies, etc. The interest is calculated from date of death to the actual date of the various payments.

Example 3. Date of death, 31st December, 1949. Estate valued at £25,000 gross. First year's income, £1,000. Funeral expenses, testamentary expenses, and debts, amounting to £3,000, paid on 31st March, 1950. Legacies amounting to £2,200 paid on 30th June, 1950. Show the apportionment between the life-tenant and the remainderman.

Required the principal which, invested on 31st December, 1949, at 4 per cent, would amount to £3,000 on 31st March, 1950, a period of 90 days.

Interest on £100 for 90 days at 4% is $£\left(4 \times \frac{90}{365}\right)$, and £100 would thus amount to $£100 + \left(4 \times \frac{90}{365}\right)$.

Now, $£100 + \left(4 \times \frac{90}{365}\right)$ is produced by a principal of £100.

And £1 is produced by a principal of $£\dfrac{100}{100 + \left(4 \times \frac{90}{365}\right)}$

And £3,000 is produced by a principal of $\dfrac{100}{100 + \left(4 \times \frac{90}{365}\right)} \times £3,000$

$= £\dfrac{36,500 \times 3,000}{36,860} = £\dfrac{10,950,000}{3,686} = £2970{\cdot}6999 = £2970{\cdot}7$ (approx.)

$= £2,970\ 14s.$

The first apportionment will therefore be—

	£	s.	d.
Capital	2,970	14	–
Income (4% on above for 90 days)	29	6	–
Total	£3,000	–	–

The second principal required is—

$\dfrac{100}{100 + \left(4 \times \frac{181}{365}\right)} \times £2,200 = £\dfrac{36,500 \times 2,200}{37,224} = £\dfrac{80,300,000}{37,224}$

$= £2157{\cdot}2104 = £2157{\cdot}210 = £2,157\ 4s.\ 3d.$

The second apportionment will therefore be—

	£	s.	d.
Capital	2,157	4	3
Income (4% on above for 181 days)	42	15	9
	£2,200	–	–

Income Account will thus be credited with the £1,000 and debited with £72 1s. 9d. (£29 6s. 0d. plus £42 15s. 9d.), leaving a balance of £927 18s. 3d. for the life-tenant.

Strictly speaking, this rule should always be applied where there are both "life-tenants" and remaindermen; but it does not apply if there are no life-tenants. Testators may, however (and usually do), exclude the application of the rule by giving directions to that effect in the will.

Annuities. The correct apportionment of annuities bequeathed by will sometimes presents questions of difficulty, and it is necessary to take into consideration the circumstances of each case and the precise wording of the will, so as to give effect to the intentions of the testator.

Where, however, the deceased, during his lifetime, *contracted* to pay an annuity to another person for life, it is clear that the *capitalized value* of the annuity at the date of death is a charge against capital. The cases are so conflicting that it is impossible to lay down a fixed rule. In *re Dawson* (1906), where a testator had died owing an annuity, an apportionment was directed. In *re Henry; Gordon* v. *Gordon* (1907), this was disapproved, and an amount advanced by the tenant for life to buy out the annuitant was directed to be repaid to him out of capital. In *re Perkins* (1907), an apportionment was directed. The cases were reviewed in *re Poyser* (1910), where *re Dawson* and *re Perkins* were followed in preference to *re Henry.*

The following is an example where the annuity is apportioned—

Example 4. Annuity of £60 payable half-yearly on 30th June and 31st December. Date of death is 31st December, 1949.

First Instalment—

Capital: $\frac{100}{100+2}$ of £60	£58 16 6
Income: 6 months' interest at 4% on £58 16s. 6d.. .	1 3 6
	£60 - -

Second Instalment—

Capital: $\frac{100}{100+4}$ of £60	£57 13 11
Income: 12 months' interest at 4% on £57 13s. 11d. .	2 6 1
	£60 - -

and so on each half-year until the death of the annuitant.

Where the will directs the annuity to be paid out of income, no question of apportionment will arise. Apportionment applies only to annuities payable out of capital. The appropriate rate of interest is considered to be 4 per cent.

Example 5. Date of death, 31st December, 1949. Testator contracted to pay an annuity of £50 to X for life. Show the first three years' apportionments, taking interest into account at 4 per cent.

Following the previous formula, we ascertain the principal which, invested at date of death at 4 per cent simple interest, will produce each instalment of the annuity on the due date; that sum is capital, and the balance is income.

First Year—

Capital: $\frac{100}{100 + (4 \times 1)}$ of £50	£48	1	6
Income (4% on above for 1 year)	1	18	6
	£50	-	-

Second Year—

Capital: $\frac{100}{100 + (4 \times 2)}$ of £50	£46	5	11
Income (4% on above for 2 years)	3	14	1
	£50	-	-

Third Year—

Capital: $\frac{100}{100 + (4 \times 3)}$ of £50	£44	12	10
Income (4% on above for 3 years)	5	7	2
	£50	-	-

LEGACIES

A legacy is a gift of personalty by will, and is sometimes termed a bequest; and the person taking it is called the legatee. A gift of real property by will is known as a devise; and the person taking it is called the devisee. There are three principal classes of legacies: (1) general, (2) demonstrative, and (3) specific; but other descriptive terms also used are vested, contingent, and residuary legacies.

A *general* legacy (sometimes termed a general pecuniary legacy) is a gift of money payable out of the general funds of the estate, whilst a *demonstrative* legacy is a gift of money payable out of a particular fund which is "demonstrated" or pointed out, e.g. "I give and bequeath £100 out of the moneys on deposit at Lloyds Bank." If the demonstrated fund is not in existence at the date of death, the legacy is payable out of the funds of the general estate.

A *specific* legacy is a gift of some specific article or property in the testator's possession at the date of death, e.g. "my gold watch and chain." If, however, the testator has—during his lifetime—disposed of the subject-matter of the specific bequest, the legacy is said to be "adeemed"; and, therefore, the legatee loses his right to the legacy.

The distinction between *contingent* and *vested* legacies requires to be carefully noted. A contingent legacy is one which is payable only upon the occurrence of a certain event, as, for example, the

bequest to a child *if and when* he attains the age of twenty-one. If the child dies before that age, the legacy is not payable. A *vested* legacy is one where the time of payment is merely postponed, e.g. a gift payable at a stated date, the legatee meanwhile receiving the income therefrom. Such a legacy vests immediately in the legatee as at the date of death of the testator, and if the legatee dies before the specified date, the legacy forms part of the legatee's estate. A *residuary* legacy is a gift of the balance of the personal estate (or a part thereof) after the debts and particular legacies have been paid.

Lapse. Generally speaking, if the legatee dies before the testator, the legacy lapses, i.e. is not payable, and falls into the residue of the testator's estate. The exceptions are—

(1) Vested legacies (*see* above).

(2) Where a legacy is left to a child of the testator, and that child has predeceased the testator, leaving issue. In such cases, the legacy is payable as though the child had died immediately after the testator, and, therefore, it would be dealt with in accordance with the child's will or, if there is no will, according to the law of intestacy. Estate duty thereon is payable twice, once by the parent's estate and once by the child's estate. (*Re John Scott, Junr.*, 1900.)

(3) Where the legacy is charged on land. In this case it does not lapse, but ceases to be payable, and the land on which it is charged benefits.

Ademption. Where a testator in his will bequeaths a specific legacy, e.g. a diamond ring, to a named person, but during his lifetime he disposes of the article, the legacy (as stated above) is said to be "adeemed," i.e. it is void and of no effect by reason of the testator's disposal of the article.

The Executor's Year. The executor is allowed (Administration of Estates Act, 1925) one year in which to settle the deceased's affairs, realize the assets, and pay the debts, expenses, and legacies, but in many cases it is not possible to complete the administration within that period. If the legacies are not paid within twelve months of death, the legatees are entitled to interest at 4 per cent per annum.

Interest is, however, payable on the following legacies from the date of death—

(1) Legacies to children where no other provision is made for their maintenance.
(2) Demonstrative legacies whilst the demonstrated fund is in existence.
(3) Specific legacies where the subject-matter itself bears interest.
(4) Legacies bequeathed in satisfaction of a debt due by the testator.
(5) Legacies charged on land.

Legacy and Succession Duties. These were abolished by the Finance Act, 1949, in the case of deaths on or after 30th July, 1949.

Abatement. The payment of the testator's debts precedes the payment of legacies, and in the event of the assets being insufficient to pay all the legacies in full, they "abate" proportionately, according to their class. General legacies are affected first, abating proportionately amongst themselves, then the specific legacies. Demonstrative legacies abate with specific if the fund from which they are payable exists; but if the fund is not in existence at the testator's death, they abate with the general legacies.

Example. The balance of X's estate after payment of debts, funeral expenses, testamentary expenses, and estate duty is represented by household furniture and effects, valued at £1,000, and cash £16,000. By his will X bequeathed the following legacies—

	£	£
Widow: Furniture (Specific)	1,000	
Cash (General)		9,000
Son: Cash (General)		5,000
Daughter: Cash (General)		5,000
Private Secretary: Cash (General)		1,000
	£1,000	£20,000

Each legatee will therefore receive $\frac{16,000}{20,000}$ ($\frac{4}{5}$ths) of his or her legacy, and the available cash will be divided in this proportion.

INTESTACIES

Intestate Persons' Estates. In the absence of a will, the distribution of the deceased's estate is governed by the law of intestacy to be found in the Administration of Estates Act, 1925, and the Intestates' Estates Act, 1952.

Administration of Estates Act, 1925. The principal rules under this Act may be shortly summarized as follows—

If the intestate leaves a husband or wife, with or without issue, the surviving spouse is entitled to: personal chattels absolutely; £1,000 free of death duties and costs, plus interest at 5 per cent per annum from date of death to date of payment.

Where there is no issue, the surviving spouse will have a life interest in the residue, which is vested in statutory trusts for the benefit of eligible surviving relatives. Where there are no such relatives, the surviving spouse inherits the residue absolutely.

Where there *is* issue, the surviving spouse has a life interest in one-half of the residue. The other half is divided in equal shares between the children living at the intestate's death and who attain the age of 21 or marry under that age. Grandchildren of the intestate will inherit their deceased parent's share on like terms.

On the death of the surviving spouse, the half in which he or she had a life interest will benefit the issue—again as already described.

Where no spouse or issue is left, the estate will devolve to one of the following groups whose order of eligibility is—

1. Parents (in equal shares, or entirely to surviving parent).
2. Brothers and sisters and their children.
3. Half-brothers and sisters and their children.
4. Grandparents living at date of intestate's death.
5. Uncles and aunts and their children.
6. Uncles and aunts of the half-blood and their children.

If there is no husband nor wife nor relatives, the whole of the residue of the estate goes to the Crown.

Intestates' Estates Act, 1952. In respect of deaths occurring after 31st December, 1952, the law as to the devolution of property on intestacy is amended as follows—

(*A*) *Where deceased left a surviving spouse*—

(1) If no issue and no parent or brother or sister of the whole blood, or issue of a brother or sister of the whole blood, survive the deceased, then the whole residuary estate absolutely is taken by the *surviving spouse.*

(2) If children or other issue survive the deceased, then the *surviving spouse* takes—

(*a*) (i) Personal chattels absolutely; (ii) £5,000 free of death duties and costs; and (iii) Interest at 4 per cent per annum on £5,000 from the date of death to the date of payment, payable primarily out of income.

(*b*) A life interest in half the residue, with remainder to the issue upon the statutory trusts.

(3) If no issue, but a parent or parents, brother or sister of the whole blood, or issue of a brother or sister of the whole blood survive the deceased, *then the surviving spouse takes*—

(*a*) (i) Personal chattels absolutely; (ii) £20,000 free of death duties and costs; and (iii) Interest at 4 per cent per annum on £20,000, on the same conditions as (2) (*a*) (iii).

(*b*) Half the residue absolutely.

The other half of the residue goes to the surviving parent or parents of the intestate absolutely (in equal shares if applicable) or, where there is no surviving parent, on the statutory trusts for brothers and sisters of the whole blood of the estate (or their issue representing them). No more remote issue can participate.

(*B*) *Where the deceased left no surviving spouse*—

The estate devolves on the same classes of persons in the same order as before the Act was passed.

Per Capita. *Per capita* (by the heads) means that where an intestate dies leaving children, the children's share of the esstate is divisible equally among them. The children claim in their own right as actual next-of-kin. In cases of no issue, (1) parents of the intestate or, failing them, (2) brothers and sisters or, failing them,

(3) grandparents or, failing them, (4) uncles and aunts become entitled to take *per capita*.

Per Stirpes. *Per stirpes* (by the stems) means that where an intestate dies leaving children, and also children of a deceased child or children, the grandchildren share in the distribution of the estate. Thus, suppose an intestate dies leaving three children, and also three grandchildren of a deceased child, then the children's share of the estate would be divisible into four equal parts. The three surviving children would each take one part *per capita*; and the three grandchildren would take the fourth part (their deceased parent's share) equally among them *per stirpes*. In the latter case, the children do not claim in their own right, but by representation. In cases of no issue, the issue of brothers and sisters (i.e. the intestate's nephews and nieces) or failing them, the issue of uncles and aunts (i.e. the intestate's cousins) become entitled to take *per stirpes*.

Advancement and Hotchpot. These terms are used to denote the bringing into account of a sum of money advanced by a parent during lifetime to a child. The amount must be substantial, and given, for example, on marriage or with the intention of establishing the child in life. Payments for educational purposes are not included. This amount is added to the personal estate before it is divided. If, however, the advancement is greater than the beneficiary's share, the beneficiary cannot be called upon to repay anything, but, of course, he must not participate in the division.

Advancements brought into hotchpot operate only for the benefit of other children; the widow or widower cannot claim any benefit therefrom. Even where there is a will containing a hotchpot clause, the widow cannot benefit.

Example. A died intestate in 1952, leaving a widow and three children, Alfred, Douglas, and Mabel, all over 21, who had received advances of £4,000, £3,000, and £2,000 respectively. The residue, after the widow's appropriation of £1,000 plus 5 per cent interest, amounted to £15,000. Show the distribution, bringing into hotchpot the advances, but ignoring interest and death duties. What difference would it make if Alfred's advance had been £7,000?

	Total	Widow	Alfred	Douglas	Mabel
	£	£	£	£	£
Residue (½ to Widow for life, ½ to Children) . . .	15,000	7,500	2,500	2,500	2,500
Add Advances . . .	9,000	—	3,000	3,000	3,000
	24,000	7,500	5,500	5,500	5,500
Deduct Advances . . .	9,000	—	4,000	3,000	2,000
Balance due . . .	£15,000	£7,500	£1,500	£2,500	£3,500

Second part: Children's share of residue £7,500 + advances £12,000 = £19,500; and one-third of this is £6,500. As Alfred's advance £7,000 is greater than his one-third share £6,500, he will be excluded; and the distribution will be as follows—

	Total	Widow	Douglas	Mabel
	£	£	£	£
Residue (½ to Widow for life, ½ to Children)	15,000	7,500	3,750	3,750
Add Advances	5,000	—	2,500	2,500
	20,000	7,500	6,250	6,250
Deduct Advances	5,000	—	3,000	2,000
	£15,000	£7,500	£3,250	£4,250

The £7,500 held on statutory trust for the widow passes at her death to her three children, who share it equally.

Hotchpot does not apply where there is a will, unless the will itself contains a hotchpot clause. The Administration of Estates Act, 1925, applies the **Hotchpot Rule** both to intestacies and to partial intestacies. A partial intestacy is one where a deceased person in his will disposes of only part of his property, and in such cases any children or grandchildren of the deceased must bring into account any benefits that they receive under the will. Other persons, however, need not do so.

Interest on Advances. Where some children of a testator have received advances and others have not, the Court, in order to adjust the rights of the beneficiaries among themselves, has ordered that the advances should be charged with interest at the rate of 4 per cent per annum from the date of death to the date of distribution (*re Davy*). In other cases, where income has been received from the assets, the Court, ignoring interest, has directed that the beneficiaries should be credited with the income in the proportion that their respective net shares of the estate bear to the total estate. Thus, suppose the residue of an estate amounted to £20,000 divisible equally among a testator's three children, whose shares, after advances had been brought into hotchpot, were £9,000, £6,000, and £5,000 respectively; then the children would receive, in addition to the capital sum, $\frac{9}{20}$ths, $\frac{6}{20}$ths, and $\frac{5}{20}$ths respectively of the income (*re Hargreaves*).

Estate Duty on Advancements. Advancements, being gifts *inter vivos*, become liable to estate duty if made within five years of the donor's death; and the duty is payable by the recipient. In such cases, the amount to be brought into hotchpot would be the amount of the advance less the estate duty paid on it (*re Beddington*).

Where advances have been made more than five years before the donor's death, and are therefore not chargeable with estate duty, the estate duty should be added to the residue to form a gross fund, when the advances are brought into hotchpot; and each beneficiary should be charged with a share of the duty in proportion to his net share of the gross amount distributable (*re Tollemache*).

THE EXECUTORS' ACCOUNTS

The Books Required. The books of account to be kept by executors comprise the Journal, Cash Book, and Ledger. For large estates, where there are several executors, a minute book also should be kept to record particulars of the executors' transactions and decisions at their meetings, the record being signed by those present, and a Rent Roll may be necessary.

The Editor does not advocate the use of a Journal, as he supports the view that each Ledger Account should contain full details of every transaction. No principle is involved—the result achieved, as a matter of figures, being the same in both cases; but where the Journal is used, the tendency is for details of the transaction to be recorded in the Journal only and for the Ledger accounts to consist of a bald, meaningless summary.

The technical nature of executorship accounts necessitates that they afford clear, concise summaries of the various transactions; and this result is achieved only when full details are given in the Ledger accounts.

Many practitioners and teachers prefer the use of a Journal, more especially as it affords some real benefit to students who are approaching the subject for the first time; and for their benefit the entries in the present example have been made by means of a Journal.

If there are many properties for which rents have to be collected, or the estate includes a large number of investments, it is desirable to keep a rent roll and an investment register in which to record respectively full particulars of the properties and the investments.

The Journal. An epitome of the will (as a memorandum and for purposes of reference) should be written in the first pages of the Journal so as to avoid the necessity of repeated reference to the will itself. Some authorities recommend that a copy of the Estate Duty Account also should be entered in the Journal.

The opening entries should be made upon the basis of the probate values shown in the Estate Duty Account, the Estate Account being credited with the probate values of the assets and the debit entries appearing in separate accounts for the respective assets, whilst the deceased's debts, funeral expenses, etc., are debited to the Estate Account and credited to the respective Liability Accounts. Sub-

sequently the Journal is used for passing transfers from one Ledger Account to another Ledger Account, as, for example, the profit or loss arising on the realization of an asset. Full narratives are essential with these entries.

In this connexion, eminent authorities differ in opinion as to whether the asset accounts should be opened with the probate values or not. The argument in support of using these figures is that it is the only method by which the accounts show, at any time, a full, complete, and adequate record of the testator's assets and liabilities, and, therefore, it is quite impossible for any asset or liability to be overlooked at the time of any subsequent division of the estate amongst the beneficiaries.

Other authorities suggest that if the probate values are entered in the accounts, and a loss is subsequently incurred on realization, the executors might be required to make good that loss. They therefore recommend that only a memorandum note of the probate values should be taken, and that the estate and asset accounts should be written up as and when the assets are realized. In other words, the accounts are solely on a cash basis; but it is submitted that the Cash Account or system is not a complete record. Moreover, the foregoing view of the executors' personal responsibility does not appear to be correct. An executor is *prima facie* responsible for the proper realization of the assets entrusted to his care, and he would be personally chargeable only for a breach of trust in the execution of his duty. This personal liability arises whether the facts are entered in books of account or not.

The actual method to adopt is largely a question of expediency, i.e. what is the best method to pursue in the individual circumstances of each case. For small estate, the cash method is probably the most convenient, but for large estates, where many interests are involved, the complete method of recording full details of the assets and their subsequent realization is undoubtedly the best. The latter method, which is generally adopted by professional accountants, is adopted in the example shown in the subsequent pages.

The Cash Book. The most suitable form of Cash Book contains three columns showing respectively the apportioned amounts for income and capital, as in the example on page 1004. In practice, however, sometimes the total column is *omitted*, and sometimes only the total column is used. In the latter case, adjustments are made in the Ledger, thus (page 1004) the first item of £41 5s. might be posted in one item, and then £1 7s. 1d. transferred to Income Account and £39 17s. 11d. to Capital Account. The three columns are, however, recommended.

The entries should show full details and, where apportionment occurs, should state the respective periods for income and capital.

A separate Banking Account must always be opened in the name

of the executor(s) of the estate, and where there are more than two cheques should be signed by any two.

Supporting vouchers should be numbered and filed for reference.

The Ledger. Two money columns, representing income and capital, should be shown on both sides of the Ledger and, if there are a large number of investments, it is convenient to have a third column to record the nominal value of the investments.

The usual accounts opened are the Estate Account, Income Account, separate accounts for funeral, testamentary, and executorship expenses (including Estate Duty), creditors, debtors, legacies and devises, each investment, leasehold or freehold property, and a separate account for each annuitant, life-tenant and residuary legatee. Profits or losses on the realization of assets, those expenses which are chargeable against capital, and the payment of legacies are transferred to the Capital Account. The final balance represents the residual value of the estate, and this final balance is divided and transferred to the credit of the residuary legatees' accounts.

Income Account. To this account are transferred the credit balances of the income columns of the various investment and property accounts, whilst on the debit side are entered the transfers from the expense accounts which are applicable to income, e.g. interest on estate duty and expense of carrying on the estate, etc.

The balance of the Income Account is divided amongst the life-tenants in the proportions in which they are entitled to share the income and credited to their respective accounts, the latter accounts being debited from the Cash Book with the actual payments made.

Example. Charles Day died on 2nd January, 1950, and his estate was valued for probate as follows—

		£	s.	d.
£12,000 Consols $2\frac{1}{2}\%$, at 72 ex. div.		8,640	-	-
Dividend due 5th Jan.	£75 - -			
Less tax at 9s. in £	33 15 -			
		41	5	-
£20,000 $3\frac{1}{2}\%$ War Loan at 98		19,600	-	-
100 Cum Preference Shares of £10 each in the Exe Co., Ltd., at £8 per share		800	-	-
100 Ordinary Shares of £5 each in the Alpha Co., Ltd., at £10 each		1,000	-	-
$\frac{8}{64}$ths Share (nom. value, £800) in the S.S. *Delaware*, valued at		850	-	-
Cash in the house		13	10	-
Cash at Bank		7,475	12	6
Loan on Mortgage at 5%		2,000	-	-
6 months' Interest thereon, due 2nd January	£50 - -			
Less Income Tax at 9s.	22 10 -			
		27	10	-
Household Furniture		1,100	-	-
Leasehold House (let at £100 per annum and subject to a ground rent of £10 per annum)		900	-	-
Rent due from Midsummer to date		52	-	-
Freehold Residence		2,400	-	-

Liabilities

		£	s.	d.
Debts due by deceased		356	–	–
Ground Rent due 1st January		5	–	–
Liability for Sch. A Income Tax on Leasehold Property (assessed at £80) from 6th April, 1949, to 2nd January, 1950 = $\frac{272}{365}$ of £36	£26 16 7			
Less proportion of Tax on Ground Rent $\frac{272}{365}$ of £4 10s.	3 7 1			
		23	9	6
Liability to Sch. A tax on Freehold Residence (assessed at £120) from 6th April to 2nd January = $\frac{272}{365}$ of £54		40	4	10

By his will the testator left the following legacies free of duty—

Household furniture and effects to his widow; £250 to his brother; £500 to his niece; and his shares in the Alpha Co. to his secretary.

The residue of the estate was to be held in trust for the benefit of his widow (free of all duties) during her lifetime. On her death the residue was to be realized and distributed; one-fourth to his niece and the remainder equally between the Mayville Hospital and the Mayville Orphanage.

The will directed that the rule in *Allhusen* v. *Whittel* should not apply.

The widow died on 5th October, 1950.

The executors' receipts and payments were as follows—

1950				£	s.	d.
Jan.	5.	Quarter's dividend on £12,000 Consols		41	5	–
,,	25.	Half-year's Rent of Leasehold Property to Christmas, 1949	£50 – –			
		Less Income Tax, Schedule A (£80 at 9s.)	36 – –			
				14	–	–
,,	28.	Sch. A Tax on Freehold Residence		54	–	–
,,	28.	Ground Rent to Christmas paid	£5 – –			
		Less Tax at 9s.	2 5 –			
				2	15	–
Feb.	2.	Funeral Expenses		57	–	–
,,	2.	Debts due by deceased		356	–	–
Mar.	31.	Dividend from S.S. *Delaware* in respect of voyage ended 2nd Dec., 1948		49	–	–
,,	31.	Proceeds of Sale of Shares in S.S. *Delaware*		1,900	–	–
,,	31.	Dividend on Cum. Pref. Shares in Exe Co. for year ended 31st Jan., 1949, out of profits earned in year ended 31st Jan., 1950		49	–	–
		(*N.B.*—The company made no profits in 1948–49.)				
		Inland Revenue, Estate Duty paid—				
		28% on Personalty,[1] £42,018 3s. 2d.	£11,765 1 8			
		Interest thereon, 2%—88 days	56 14 8			
		28% on Realty, £2,400	672 – –			
				12,493	16	4
Apr.	5.	Quarter's Dividend on £12,000 Consols		41	5	–
,,	30.	Legacies paid: Brother, £250; Niece, £500		750	–	–

[1] This amount will be arrived at as indicated on page 982, and the Estate Account (p. 1006) agrees therewith.

1950				£	s.	d.
Apr.	30.	Shares in Alpha Co. transferred to the beneficiary.				
May	29.	Purchase of £2,000 Consols at 71		1,420	–	–
		Brokerage, etc.		3	18	–
,,	29.	Net proceeds of Sale of 100 Cum. Pref. Shares of £10 each in Exe Co.		2,030	10	–
June	1.	Half-year's Dividend on £20,000 3½% War Loan		350	–	–
July	1.	Half-year's Ground Rent to Midsummer	£5 – –			
		Less Income Tax 9s.	2 5 –	2	15	–
,,	2.	Proceeds of security for Mortgage and unpaid Interest (forfeited to the estate)		1,890	–	–
,,	5.	Half year's Rent of Leasehold House		50	–	–
,,	5.	Rent from widow, who took over Freehold Residence at £150 per annum and paid Rent from 3rd Jan. to 24th June		71	14	–
,,	5.	Proceeds of Sale of Leasehold Property		2,000	–	–
,,	5.	Quarter's Dividend on £14,000 Consols	£87 10 –			
		Less Income Tax at 9s.	39 7 6	48	2	6
Sept.	30.	Widow on account of Income		250	–	–
Oct.	5.	Quarter's Dividend on £14,000 Consols		48	2	6
,,	5.	Date of widow's death.				

The book value of the property "passing" on the widow's death to the residuary legatees is represented by the balance of the Estate Account on 5th October, £32,395 9s. 10d. (see page 1006). Whilst estate duty would normally be payable on this figure, but subject to an allowance of 50 per cent on the duty payable on the freehold property owing to the estate duty being payable a second time within twelve months of the first death, in this case no duty is in fact payable in view of Sect. 14 of the Finance Act, 1914, as the widow is not competent to dispose of the property.

The widow's executors are entitled to receive all income which has accrued to date of her death; any subsequent income is credited to capital and forms part of the residue distributable to the remaindermen—

1950			£	s.	d.
Nov.	1.	Widow's executors gave up possession of freehold residence and paid rent to date	52	–	–
,,	14.	Freehold residence sold, net proceeds	2,425	–	–
,,	14.	£4,000 Consols sold at 73 cum. div	2,920	–	–
		Less Brokerage charges, etc.	7	14	–
Dec.	1.	Dividend on War Loan	350	–	–
,,	1.	Executorship expenses on realization	58	12	6
,,	2.	The residuary legatees agreed to take over the investment in Consols and War Loan in their due proportions. Consols were valued at 74 and War Loan at 101 at that date.			

Prepare the executors' accounts, making reserves (where necessary) for unpaid income tax, and show (1) interim Balance Sheet at date of widow's death, (2) final Balance Sheet with proposed distribution of assets as at 2nd December. Bank charges are ignored.

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1950			£	s.	d.	£	s.	d.
Jan. 2	Sundry Assets . . . . *Dr.*							
	To Estate Account . .	1				44,899	17	6
	Consols (2½%), £12,000 at 72 ex div.	3	8,640	–	–			
	Dividend thereon due 5th Jan. . . . . £75 – – ; *Less* tax at 9s. . 33 15 –		41	5	–			
	War Loan (3½%), £20,000 at 98 cum. div.	4	19,600	–	–			
	Exe Co., Ltd., Cum. Pref. Shares of £10 each, 100 at £8 . .	5	800	–	–			
	Alpha Co., Ltd., Ord. Shares of £5 each, 100 at £10. . . .	6	1,000	–	–			
	S.S. *Delaware*, $\frac{8}{64}$ths Share (Nom. Val. £800) *valued at*. . .	7	850	–	–			
	Cash in the house . . .	C.B.	13	10	–			
	Cash at Bank	C.B.	7,475	12	6			
	Loan on Mortgage at 5% . .	8	2,000	–	–			
	6 months' interest thereon, due 2nd Jan. . . . . £50 – – ; *Less* income tax at 9s. 22 10 –	8	27	10	–			
	Household Furniture	9	1,100	–	–			
	Leasehold Property, valued at .	10	900	–	–			
	Rent due from Midsummer to date	10	52	–	–			
	Freehold Property (own residence) valued at	11	2,400	–	–			
,, 2	Estate Account . . . *Dr.*	1	424	14	4			
	To Sundry Liabilities—							
	Deceased's Debts . . .	12				356	–	–
	Leasehold Property (Ground Rent).	10				5	–	–
	Income Tax Suspense Account.	13				63	14	4
	Liability for Sch. A Income Tax on Leasehold Property assessed at £80 at 9s. $\frac{272}{365}$ of £36 . . £26 16 7 ; *Less* proportion of tax on ground rent . 3 7 1 ($\frac{272}{365}$ of £4 10s.) = 23 9 6 ; On Freehold Property (£120 at 9s.) $\frac{272}{365}$ of £54 . . 40 4 10 ; Total £63 14 4							
Apr. 30	Legacies Account . . *Dr.*	14	2,100	–	–			
	To Sundries—							
	Household Furniture . . Transferred to widow.	9				1,100	–	–
	Alpha Co. Shares . . . Transferred to secretary.	6				1,000	–	–
Oct. 5	Income Tax Suspense Account *Dr.*	13	63	14	4			
	To Sundries—							
	Leasehold Property. . . .	10				23	9	6
	Freehold Property	11				40	4	10
	Transfer of income tax on rent apportioned to capital.							
	Carried Forward . .		47,488	6	2	47,488	6	2

JOURNAL—*Continued*

Date		Particulars	Fo.	£	s.	d.	£	s.	d.
1950		Brought Forward . .		47,488	6	2	47,488	6	2
Oct.	5	Sundries . . . . . *Dr.*							
		To Estate Account . .	1				3,474	12	2
		Exe Co. Shares	5	1,275	12	2			
		S.S. *Delaware*	7	1,099	–	–			
		Leasehold Property . . .	10	1,100	–	–			
		Profits on realization.							
,,	5	Estate Account . . . *Dr.*	1	3,060	3	10			
		To Sundries—							
		Loan on Mortgage . . .	8				182	10	-
		Loss on realization.							
		Legacies Account . . .	14				2,850	–	–
		War Loan	4				27	13	10
		Reserve for unpaid income tax							
,,	5	Sundries . . . . . *Dr.*							
		To Income Account . .	2				419	1	4
		Consols (dividends) . . .	3	138	17	1			
		War Loan.	4	158	13	1			
		Exe Co. Shares (dividends) . .	5	3	17	10			
		Loan on Mortgage . . .	8	24	15	–			
		Leasehold Property (net rents) .	10	34	19	6			
		Freehold Property . . .	11	57	18	10			
		Being transfer of dividends, etc.							
,,	5	Sundries . . . . . *Dr.*							
		To Income Tax Suspense Account	13				177	15	–
		Loan on Mortgage Account. .	8	20	5	–			
		Reserve for income tax on £45 at 9s.							
		War Loan.	4	157	10	–			
		Reserve for income tax on £350 at 9s.							
		Income £288 9 3 at 9s. . . . £129 16 2							
		Capital £61 10 9 at 9s. . . . 27 13 10							
Dec.	1	Sundries . . . . . *Dr.*							
		To Estate Account . .	1				95	15	2
		War Loan (net dividends) . .	4	59	19	2			
		Freehold Property . . .	11	35	16	–			
		Profit on realization.							
,,	1	Sundries . . . . . *Dr.*							
		To Income Account . .	2				173	14	10
		Freehold Property (rents to 5th Oct.)	11	41	4	–			
		War Loan (dividend to 5th Oct.).	4	132	10	10			
,,	1	Sundries . . . . . *Dr.*							
		To Income Tax Suspense Account	13				157	10	-
		War Loan.	4	157	10	–			
		Reserve for income tax on £350 at 9s.							
,,	2	Sundries . . . . . *Dr.*							
		To Estate Account . .	1				908	11	8
		Consols	3	247	–	11			
		War Loan.	4	661	10	9			
		Appreciation in value of investments.							
			£	55,955	10	2	55,955	10	2

Dr. ESTATE ACCOUNT 1 *Cr.*

1950			£	s.	d.
Jan. 2	To Sundry Liabilities—				
	Deceased's Debts		356	–	–
	Ground Rent	J.	5	–	–
	Income Tax, Sch. A	,,	63	14	4
Feb. 2	,, Cash—	,,			
	Funeral Expenses		57	–	–
,, 2	,, Balance c/d—	C.B.			
	Net value of estate		44,418	3	2
		£	44,899	17	6
Mar. 31	To Cash Estate Duty on Personalty	C.B.	11,765	1	8
	,, ,, ,, ,, on Realty	,,	672	–	–
Oct. 5	,, Transfers—				
	Loan on Mortgage (Loss)	J.	182	10	–
	Legacies paid	,,	2,850	–	–
	War Loan reserve for Income Tax	,,	27	13	10
,, 5	,, Balance c/f		32,395	9	10
		£	47,892	15	4

1950			£	s.	d.
Jan. 2	By Sundry Assets—				
	£12,000 Consols at 72 ex div.	J.	8,640	–	–
	Div. due 5th Jan.		41	5	–
	£20,000 War Loan at 98 cum. div.	,,	19,600	–	–
	Exe Co., Cum. Pref. Shares, 100 at £8		800	–	–
	Alpha Co., Ord. Shares, 100 at £10	,,	1,000	–	–
	S.S. *Delaware*, $\frac{8}{64}$ths share	,,	850	–	–
	Cash in the house	,,	13	10	–
	Cash at Bank	,,	7,475	12	6
	Loan on Mortgage	,,	2,000	–	–
	Accrued Interest	,,	27	10	–
	Household Furniture	,,	1,100	–	–
	Leasehold Property	,,	900	–	–
	Rent accrued	,,	52	–	–
	Freehold Property	,,	2,400	–	–
		£	44,899	17	6
Feb. 2	By Balance b/d		44,418	3	2
Oct. 5	,, Transfer Profit on realization—				
	Exe Co. Shares	J.	1,275	12	2
	S.S. *Delaware* Shares	,,	1,099	–	–
	Leasehold Property	,,	1,100	–	–
		£	47,892	15	4

ESTATE ACCOUNT—*contd.*

Dr. | *Cr.*

Date	Particulars		£ s. d.	Date	Particulars		£ s. d.
1950				1950			
Dec. 1	To Executorship Expenses		58 12 6	Oct. 5	By Balance b/f		32,395 9 10
,, 2	,, Balance c/d		33,341 4 2	Dec. 1	,, Transfers—		
					War Loan Dividends	J.	59 19 2
					Freehold Property, Profit on Realization	,,	35 16 –
				,, 2	,, Appreciation in value Consols	,,	247 – 11
				,, 2	,, ,, ,, War Loan	,,	661 10 9
			£33,399 16 8				£33,399 16 8
				Dec. 2	By Balance b/d		33,341 4 2

INCOME ACCOUNT 2

Dr. | *Cr.*

Date	Particulars		£ s. d.	Date	Particulars		£ s. d.
1950				1950			
Mar. 31	To Cash: Interest on Estate Duty	C.B.	56 14 8	Oct. 5	By Transfers—		
Sept. 30	,, ,, Widow	,,	250 – –		Consols, Dividends	J.	138 17 1
Oct. 5	,, Balance c/d		112 6 8		War Loan	,,	158 13 1
					Exe Co. ,,	,,	3 17 10
					Mortgage Interest	,,	24 15 –
					Leasehold Property, net Rents	,,	34 19 6
					Freehold Property, net Rents	,,	57 18 10
			£419 1 4				£419 1 4
Dec. 2	To Balance c/d		286 1 6	Oct. 5	By Balance b/d		112 6 8
				Dec. 1	,, Transfers—	J.	
					Freehold Property Rents	,,	41 4 –
					War Loan (Div.)		132 10 10
			£286 1 6				£286 1 6
				Dec. 2	By Balance b/d		286 1 6

Dr. $2\frac{1}{2}\%$ CONSOLIDATED STOCK 3 Cr.

Dividends payable on 5th January, 5th April, 5th July, and 5th October.

		Income	Capital			Income	Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate Account—£12,000 Stock at 72 ex div.		8,640 – –	1950 Jan. 5	By Cash: Dividend—Income: 3 days	1 7 1	
	Div. due 5th Jan.		41 5 –		Capital: 89 days		39 17 11
May 29	,, Cash: Purchase of £2,000 Stock at 71 and Brokerage		1,423 18 –	Apr. 5	,, Cash: Dividend	41 5 –	
				July 5	,, ,, ,,	48 2 6	
				Oct. 5	,, ,, ,,	48 2 6	
Oct. 5	,, Transfer to Income A/c	138 17 1		,, 5	,, Balance c/d		10,065 5 1
		£138 17 1	10,105 3 –			£138 17 1	10,105 3 –
Oct. 5	To Balance b/d		10,065 5 1	Nov. 14	By Cash: Sale of £4,000 Stock at 73, less Brokerage		2,912 6 –
Dec. 2	,, Estate Account, appreciation in value		247 – 11	Dec. 2	,, Value of £10,000 Stock at 74 c/d		7,400 – –
			£10,312 6 –				£10,312 6 –
Dec. 2	To Balance b/d		7,400 – –				

Another method of treatment is to post the £1 7s. 1d. and the £39 17s. 11d. into the inner column, and then transfer to Income Account and Estate Account respectively—leaving the Capital figure at the Probate value—although it does artificially inflate the balance on Estate Account to a trifling extent. The method set out in the text is the most usual one.

$3\frac{1}{2}\%$ WAR LOAN 4

Dividends payable on 1st June and 1st December, tax not deducted at source.

Dr. *Cr.*

		Income	Capital			Income	Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950				1950			
Jan. 2	To Estate Account— £20,000 Stock at 98 cum. div. . .		19,600 – –	June 1	By Cash: Dividend— Income, 150 days .	288 9 3	
					Capital, 32 ,, .		61 10 9
Oct. 5	,, Reserve for Income Tax, £350 at 9s. .	129 16 2	27 13 10	Oct. 5	,, Transfer to Estate A/c (Income Tax) .		27 13 10
,, 5	,, Transfer to Income A/c	158 13 1		,, 5	,, Balance c/d . .		19,538 9 3
		£288 9 3	19,627 13 10			£288 9 3	19,627 13 10
Oct. 5	To Balance b/d . .		19,538 9 3	Dec. 1	By Cash: Dividend— Income, 126 days .	240 19 8	
Dec. 1	,, Reserve for Income Tax, £350 at 9s. .	108 8 10	49 1 2		Capital, 57 ,, .		109 – 4
,, 1	,, Transfer to Income A/c	132 10 10		,, 2	,, Value of £20,000 Stock at 101 c/d . .		20,200 – –
,, 1	,, ,, Estate A/c		59 19 2				
,, 2	,, Estate A/c, appreciation in value . .		661 10 9				
		£240 19 8	20,309 – 4			£240 19 8	20,309 – 4
Dec. 2	To Balance b/d . .		20,200 – –				

Dr. EXE CO., LTD., CUM. PREF. SHARES 5 *Cr.*

Date	Particulars	Income	Capital	Date	Particulars	Income	Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate A/c, 100 Shares at £8 . . .		800 – –	1950 Mar. 31	By Cash: Dividend .	3 17 10	45 2 2
Oct 5	,, Transfer to Income A/c	3 17 10		May 29	,, Cash: Proceeds of Sale of Shares . . .		2,030 10 -
,, 5	,, Transfer to Estate A/c (Profit on realization)		1,275 12 2				
		£3 17 10	£2,075 12 2			£3 17 10	£2,075 12 2

Dr. ALPHA CO., LTD., ORD. SHARES 6 *Cr.*

Date	Particulars		Capital	Date	Particulars		Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate A/c, 100 Shares at £10 . . .		1,000 – –	1950 Apr.30	By Legacies A/c, Secretary		1,000 - -

S.S. *DELAWARE* $\frac{8}{64}$THS SHARE 7

Dr.							Cr.
			Capital				Capital
		£ s. d.	£ . d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate A/c, $\frac{8}{64}$ths Share		850 – –	1950 Mar. 31	By Cash: Dividend .		49 – –
Oct. 5	,, Estate A/c, (profit on realization) . .		1,099 – –	,, 31	,, Cash: Sale of Shares .		1,900 – –
			£1,949 – –				£1,949 – –

LOAN ON MORTGAGE 8

Dr.							Cr.
		Income	Capital			Income	Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate A/c. . .		2,000 – –	1950 July 2	By Cash: Sale proceeds—		
	,, Accrued Interest £50 Less tax at 9s. £22 10		27 10 –		Inc.: $\frac{50}{2,100}$ of £1,890	45 – –	
					Cap.: $\frac{2,050}{2,100}$ of £1,890		1,845 – –
Oct. 5	,, Reserve for Income Tax £45 at 9s. .	20 5 –		Oct. 5	,, Transfer to Estate A/c: Loss on realization .		182 10 –
,, 5	,, Transfer to Income A/c	24 15 –					
		£45 – –	£2,027 10 –			£45 – –	£2,027 10–

Dr. HOUSEHOLD FURNITURE 9 Cr.

			Capital				Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate A/c . .		£1,100 - -	1950 Apr. 30	By Legacies A/c (widow) .		£1,100 - -

Dr. LEASEHOLD PROPERTY 10 Cr.

		Income	Capital			Income	Capital
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Jan. 2	To Estate A/c . .		900 - -	1950 Jan. 2	By Accrued Ground Rent		5 - -
	,, Accrued Rent . .		52 - -	,, 25	,, Cash, Rent to Xmas .		50 - -
,, 25	,, Income Tax, Sch. A .	9 3 5	26 16 7	,, 28	,, Tax on Ground Rent .		2 5 -
,, 28	,, Cash: Ground Rent .		5 - -	July 1	,, ,, ,, ,,	1 2 11	1 2 1
July 1	,, ,, ,, ,, .	5 - -		,, 5	,, Cash, Rent . .	48 - -	2 - -
Oct. 5	,, Transfer to Income A/c	34 19 6		,, 5	,, Cash, Sale proceeds .		2,000 - -
,, 5	,, Estate A/c. . .		1,100 - -	Oct. 5	,, Transfer, Income Tax Suspense A/c . .		23 9 6
		£49 2 11	£2,083 16 7			£49 2 11	£2,083 16 7

FREEHOLD PROPERTY 11

Dr.		Income	Capital			Income	Capital Cr.
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950				1950			
Jan. 2	To Estate A/c.		2,400 - -	July 5	By Cash, Rent	71 14 -	
,, 28	,, Income Tax	13 15 2	40 4 10	Oct. 5	,, Transfer to Income Tax Suspense A/c		40 4 10
Oct. 5	,, Transfer to Income A/c	57 18 10		,, 5	,, Balance c/d		2,400 - -
		£71 14 -	£2,440 4 10			£71 14 -	£2,440 4 10
Oct. 5	To Balance b/d		2,400 - -	Nov. 1	By Cash, Rent to date—		
Dec. 1	,, Transfer to Income A/c	41 4 -			Income, 103 days	41 4 -	
,, 1	,, Transfer to Estate A/c, Profit on realization		35 16 -		Capital, 27 ,,		10 16 -
				,, 14	,, Cash, Sale proceeds		2,425 - -
		£41 4 -	£2,435 16 -			£41 4 -	£2,435 16 -

DECEASED'S DEBTS ACCOUNT 12

Dr.			Capital				Capital Cr.
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950				1950			
Feb. 2	To Cash		356 - -	Jan. 2	By Estate A/c		356 - -

INCOME TAX SUSPENSE ACCOUNT

Dr.

Date		Particulars	£ s. d.	Capital £ s. d.
1950 Oct.	5	To Transfers to—		
		Leasehold Property .		23 9 6
		Freehold Property .		40 4 10
				£63 14 4
Dec.	2	,, Balance c/d . .		335 5 –
				£335 5 –

Cr.

Date		Particulars	£ s. d.	Capital £ s. d.
1950 Jan.	2	By Estate A/c . .		63 14 4
				£63 14 4
Oct.	5	,, Reserve for Tax—		
		Mortgage Interest .	20 5 –	
		War Loan .	157 10 –	
				177 15 –
Dec.	1	,, Reserve for Tax—		
		War Loan . .		157 10 –
				£335 5 –
Dec.	2	By Balance b/d . .		335 5 –

LEGACIES ACCOUNT

14

Dr.			Capital				Capital Cr.
		£ s. d.	£ s. d.			£ s. d.	£ s. d.
1950 Apr. 30	To Widow— Household Furniture		1,100 – –	1950 Oct. 5	By Transfer to Estate A/c.		2,850 – –
„ 30	„ Secretary: Alpha Stores		1,000 – –				
„ 30	„ Cash: Brother . .		250 – –				
	Niece . .		500 – –				
			£2,850 – –				£2,850 – –

BALANCE SHEET AS AT 5TH OCTOBER, 1950

Liabilities	£ s. d.	*Assets*	£ s. d.
Estate Account	32,395 9 10	Cash at Bank	681 17 2
Income Account	112 6 8	£14,000 2½% Consols	10,065 5 1
Income Tax Suspense Account	177 15 –	£20,000 3½% War Loan	19,538 9 3
		Freehold Property	2,400 – –
	£32,685 11 6		£32,685 11 6

FINAL BALANCE SHEET AS AT 2ND DECEMBER, 1950
Showing the Distribution of Assets

Liabilities	£	s.	d.	£	s.	d.
Income A/c payable to Widow's Executors				286	1	6
Estate A/c—Divisible residue	33,341	4	2			
Residuary Legatees—						
Niece, one-fourth				8,335	6	–
Mayville Hospital, three-eighths				12,502	19	1
Mayville Orphanage, three-eighths				12,502	19	1
Inland Revenue—						
Unpaid Income Tax				335	5	–
				£33,962	10	8

Assets	£	s.	d.	£	s.	d.
Cash—						
Widow's Executors	286	1	6			
Niece	1,435	6	–			
Mayville Hospital	2,152	19	1			
Mayville Orphanage	2,152	19	1			
Inland Revenue—						
Income Tax	335	5	–			
				6,362	10	8
Consols—						
Niece, one-fourth	1,850	–	–			
Mayville Hospital, three-eighths	2,775	–	–			
Mayville Orphanage, three-eighths	2,775	–	–			
				7,400	–	–
War Loan—						
Niece, one-fourth	5,050	–	–			
Mayville, Hospital three-eighths	7,575	–	–			
Mayville Orphanage, three eighths	7,575	–	–			
				20,200	–	–
				£33,962	10	8

As the investments are being taken over at agreed values by the legatee, it now only remains to close the Ledger Accounts by Journal entries and distribute the cash. The beneficiaries' accounts would then appear as follows—

NIECE

Dr.		£	s.	d.		*Cr.*	£	s.	d.
1950					1950				
Dec. 2	To $3\frac{1}{2}\%$ War Loan A/c	5,050	–	–	Dec. 2	By Estate A/c	8,335	6	–
,, 2	,, $2\frac{1}{2}\%$ Consols A/c	1,850	–	–					
,, 2	,, Cash	1,435	6	–					
		£8,335	6	–			£8,335	6	–

MAYVILLE HOSPITAL

Dr.		£	s.	d.		*Cr.*	£	s.	d.
1950					1950				
Dec. 2	To $3\frac{1}{2}\%$ War Loan A/c	7,575	–	–	Dec. 2	By Estate A/c	12,502	19	1
,, 2	,, $2\frac{1}{2}\%$ Consols A/c	2,775	–	–					
,, 2	,, Cash	2,152	19	1					
		£12,502	19	1			£12,502	19	1

MAYVILLE ORPHANAGE

Dr.		£	s.	d.		*Cr.*	£	s.	d.
1950					1950				
Dec. 2	,, $3\frac{1}{2}\%$ War Loan A/c	7,575	–	–	Dec. 2	By Estate A/c	12,502	19	1
,, 2	,, $2\frac{1}{2}\%$ Consols A/c	2,775	–	–					
,, 2	,, Cash	2,152	19	1					
		£12,502	19	1			£12,502	19	1

QUESTIONS

1. Define Executorship Accounts. What is the distinction between an executor and an administrator? What are the duties of executors and administrators?
2. Define Probate and Letters of Administration. In what circumstances are letters of administration granted?
3. What is Estate Duty and when is it levied? Define (i) gifts *inter vivos* and (ii) *donationes mortis causa*; and state how they are dealt with in relation to estate duty. What concessions are available, (i) by way of marginal relief; (ii) where land or businesses again become liable to estate duty within five years?
4. Outline the method of preparation of an Estate Duty Account. What is a corrective affidavit and what purpose does it serve?
5. Define apportionment. Why is apportionment necessary in Executorship Accounts? What are the statutory provisions relating to apportionment? What expenses are chargeable to capital and what to income?
6. What are equitable apportionments? Discuss the rules in *Howe* v. *Lord Dartmouth* and the Earl of Chesterfield's Trusts. How is a loss on the realization of a mortgage security dealt with? Discuss the rule laid down in *Allhusen* v. *Whittell* and its modification in *re McEuen*.
7. Define a legacy and distinguish between general, demonstrative and specific legacies. What is the distinction between a contingent and a vested legacy? When are legacies said to lapse, or be adeemed? What is meant by the executor's year?
8. What are the principal rules relating to the distribution of intestate persons' estates? What is the widow's right and how far does this right extend? Define Hotchpot, and state how it is applied.
9. What books should be kept by an executor? Discuss the nature of the entries in the Estate Account and the Income Account. How is the balance of these accounts dealt with? Discuss the respective merits of the "complete" method and the "cash" method of keeping Executorship Accounts.

EXERCISE XXIV

1. A testator died on 1st October, 1949, and left property which was valued by the executors for Estate Duty purposes as follows—

	£
Realty	2,000
Personalty	17,000

The debts due at death amounted to £150 and funeral expenses to £60.

The Estate Duty on both realty and personalty was paid on 1st November, 1949, together with the appropriate interest.

Subsequently the Inland Revenue questioned the value of the realty, which was finally agreed at £2,700.

In December, 1949, it was discovered that certain securities, the value of which was £3,000, had been omitted from the original affidavit.

On 1st January, 1950, a Corrective Affidavit was made, and the additional Estate Duty (and interest) was paid,

Prepare a statement showing the amount of Estate Duty and interest paid by the executors.

Rates of Estate Duty are—

10 per cent on estates £15,000 to £17,500.
12 per cent on estates £17,500 to £20,000.
15 per cent on estates £20,000 to £25,000.

(R.S.A.)

2. A died on 1st January, 1950. The executor paid or received the following in the three months following death—

Jan. 5. Quarter's interest on Consols received (*less* Income Tax at 9s.), net amount received £33.

,, 10. Quarter's rent (due at Christmas) of house let at £100 per annum received.

,, 15. Final dividend of 6 per cent (*less* Income Tax) received on 1,000 shares of £1 each in X Co., Ltd., for the year to 31st December, 1949. An interim dividend of 4 per cent (*less* Income Tax) had been received in July.

,, 31. Paid Estate Duty on Personalty £300 and interest thereon.

Feb. 7. Paid on account of legal charges in connexion with obtaining Probate, £60. Paid debts due at death, £125, and Funeral Expenses, £50.

,, 20. Received dividend £120 (net) on an investment in A B Limited for the year to 31st January, 1950.

,, 28. Received £5,000 on account of A's share in a partnership, together with interest thereon at 5 per cent *less* Income Tax for two months to date.

Mar. 3. Invested the sum received on 28th February in 3½ per cent War Loan at 102 (ignore brokerage, etc.).

,, 5. Received £550 on sale of various small investments. These investments had been valued for Probate at £500.

You are required to write up the Executor's Cash Book from the particulars given. The balance at bank at the date of death was £710 and cash in the house £12. The latter was paid to bank on 7th February.

(*R.S.A.*)

3. Among the assets of A, who died in March, 1949, was a freehold house, which was valued for probate at £5,000 and upon which there was a mortgage of £3,000 carrying interest at 5 per cent per annum, payable quarterly on the usual quarter days.

The house was let for £160 per annum, payable quarterly on the usual quarter days, and the Schedule A assessment was £140.

You are required to write up the Ledger accounts concerned for the year 1950, assuming that the rent, interest and Schedule A tax were paid on the due dates.

(*R.S.A.*)

4. A testator died on 31st March, 1949. On 1st August, 1949, a dividend was received on £2,000 Stock at the rate of 8 per cent for the half-year to 30th June, 1949, less income tax at 9s. This dividend was provisionally apportioned by the executor as follows—

	£	s.	d.
Capital	58	13	4
Income	29	6	8

On 3rd March, 1950, the final dividend for 1949 was received, viz.—

	£	s.	d.
Dividend at 10 per cent	200	-	-
Less tax at 9s.	90	-	-
	£110	-	-

How should the executor apportion this dividend between Capital and Income?

(*R.S.A.*)

5. Enter the following in an Executor's Cash Book, distinguishing each item as between Capital and Income, assuming that the testator died on 1st February, 1950—

1950

Feb. 6. Received £40 for one quarter's rent to Christmas, 1949, of a house let at £160 per annum.

,, 8. Received dividend of 5 per cent (*less* income tax) on 1,000 £1 Ordinary Shares in A B Limited for year to 31st December, 1949.

,, 22. Received interest on loan to sister—4 per cent on £500 (*less* income tax) for half-year to 1st March, 1950.

Mar. 18. Paid Estate Duty on Personalty, £740, and interest thereon, £1 17s. Borrowed £750 from the Bank in order to pay Estate Duty.

,, 26. Received rent due on the 25th instant, £40, *less* Schedule A tax, £36.

Apr. 5. Received one quarter's interest on £2,000 3 per cent Local Loans (*less* income tax) due this day.

,, 6. Sold £1,000 3½ per cent War Loan (valued for Probate at £1,050) for £1,046 net.

Repaid Bank Loan and paid interest thereon, £2. (*R.S.A.*)

6. A died on 1st January, 1950, and the following are the details of his estate—

	£
Cash in the house	21
Cash at Bank	276
Household furniture, etc.	475
£2,000 War Loan quoted at 105½–106½	
Loan to C at 5 per cent; interest paid to 1st November, 1949	1,000
Freehold house	2,200
Mortgage thereon at 5 per cent; interest paid to 1st October, 1949	1,500
Life Assurance Policy	1,000
Funeral Expenses (including cost of tombstone, £30)	72
Debts due at death	64

Write up the Estate Account in the Executor's books and calculate the amount of Estate Duty which will be payable on the whole estate. Estate Duty Rates—

Exceeds £3,000	and does not exceed	£5,000	2 per cent
,, £5,000	,, ,,	£7,500	3 per cent

(*R.S.A.*)

7. G. Firth died intestate leaving a widow, one son, two daughters, and three grandchildren (the children of a deceased son). The balance of his estate, after paying debts, funeral expenses, and estate duty, amounted to £30,000, and included personal chattels valued at £1,500. During his lifetime he had advanced £7,500 to his deceased son, and £4,500 to his surviving son. Show the eventual division of his estate, ignoring interest.

8. Among the assets of A, who died on 30th November, 1949, was an investment of 2,000 shares of £1 each in Desks, Ltd., which were valued for probate at 23s.

On 1st February, 1950, a final dividend of 10 per cent (*less* tax) was received for the year 1949—an interim dividend of 5 per cent (*less* tax) had been received in July, 1949.

On 31st March, 1950, 1,000 shares were sold at 25s., and in July, 1950, an interim dividend of 5 per cent, free of tax, was received.

On 31st July, 1950 (after the receipt of the interim dividend), 500 shares were sold at 26s. 6d.

Write up the Ledger Account of this investment to 30th November, 1950, bringing down the balance as on that date. Ignore brokerage, etc. (*R.S.A.*)

9. Prepare a form of a Columnar Ledger suitable for use in a small hotel, and enter the details therein—

Tuesday, 5th August: visitors' accounts—B. Brown (Room 1): balance from

previous day, £1 11s. 6d.; apartments, 8s. 6d.; breakfast, 2s. 6d.; lunch, 4s. 6d.; dinner, 5s.; wines, 8s. 6d.; spirits, 9d.; cigars, 1s.; postages, 6d.; laundry, 3s. 4d. H. Honey (Room 2): apartments, 5s,; breakfast, 2s. 6d.; tea, 1s. 6d.; supper, 2s.; liqueurs, 9d.; minerals, 1s.; bath, 1s.; fire, 1s,; C. Chante (Room 3): balance from previous day, £1 10s. 6d.; breakfast, 2s. 6d.; 'bus to station, 6d.; cash received in settlement of bill, £1 13s. 6d.

10. At 31st December, 19.., there was a difference in the books of N. Bilston of £38 11s. 6d.; the Credit column of the Trial Balance exceeding the Debit column by this amount. The difference was placed to a Suspense Account. During the next year the following errors—affecting the previous year's accounts—were discovered. Make the entries in the Suspense Account necessary to close it before taking out a Trial Balance at 31st December, 19..—

Bank Balance, £517 13s., was included in the Trial Balance as £513 17s.

A Credit Balance on J. Jones's account in the Bought Ledger of £79 9s. was extracted as £70 9s.

The Debit and Credit sides of the Salaries Account in the Nominal Ledger were found added up (correctly) to £560 and £550 respectively.

When making a Schedule of Debtors at 31st December, of the previous year an item of £35 owing by S. Minett had been omitted.

£21 6s. had been charged to R. Foley, the correct amount as appearing in the Sales Day Book being £20 1s. 6d.

(*London Association of Accountants.*)

11. On 15th April, 19.., Boyd, Walker & Co., Liverpool, consigned to Jones & Ware, Bombay, 100 cases of cotton goods and invoiced same at £21 5s. 3d. per case, the cost price.

Boyd, Walker & Co. paid the following charges—

Insurance	£35 10s.
Freight, etc.	86 15s.

The goods arrived on 31st May, 19.., and Jones & Ware paid the landing charges, amounting to 315 rupees. They also met the cost of storing and insuring the goods at 1 rupee per case per month.

Jones & Ware ascertained that two cases had been lost in transit and informed Boyd, Walker & Co., who, having made the necessary claim, recovered on 15th August, 19.., £44, the insured value of the two cases.

On 16th June, 19.., Jones & Ware sold 80 cases for cash at 425 rupees per case, and next day remitted sight draft for 30,000 rupees at 1s. $4\frac{1}{8}$d., which was received by Boyd, Walker & Co. on 18th July, 19..

Jones & Ware disposed of the remaining cases on 15th August, 19.., at 400 rupees per case, and next day remitted the balance due by draft at 1s. 4d., after deduction of commission at $2\frac{1}{2}$ per cent on Sales.

Show the Consignment Account as at 31st July, 19.. (the end of Boyd, Walker & Co.'s financial year), and also the account with Jones & Ware. Expenses at Bombay to be calculated at 1s. 4d. per rupee. (*Corporate Accountants.*)

12. The Sales Ledgers of a trading concern are divided alphabetically and kept on a "self-balancing" basis. The following were the data from which the A–D Sales Ledger Adjustment Account in the nominal ledger was written up for March, 19...

Balances in A–D ledger on 28th February, 19.. (agreeing with Adjustment Account)—

Debtors £2,459 1s. 7d., Creditors £47 5s.

	£	*s.*	*d.*
Sales during month	3,589	10	–
Sales Returns during month	108	7	3
Cash received during month	2,891	3	2
Discount allowed during month	93	5	8
Bills Receivable received during month . . .	250	–	–
Bad Debts written off	15	8	6

Miss D. Peter's account, having a debit balance of £9 5s., was transferred to the A–D ledger, she having married a Mr. Cunningham. A credit balance of £21 15s. appearing on M. Brown's account in the Bought Ledger was set off against his account in the Sales Ledger.

The list of balances extracted from the A–D Sales Ledger at the end of March showed total debtors £2,664 9s. 6d. and creditors £43 17s. 6d.

Write up the Adjustment Account from the particulars given, ascertain the "difference," and state the most important of the figures you would first check in order.

(*R.S.A.*)

13. State carefully how you would deal with each of the following in drawing up the final accounts of a limited company—

(*a*) Debenture discount not written off.
(*b*) Profit arising on the re-issue of forfeited shares.
(*c*) Bills receivable, discounted by the Company but not yet matured.
(*d*) Provide for discounts on debtors and creditors.
(*e*) Profit on the sale of the Company's old premises, the business having been removed to a different district.
(*f*) Profit on the sale of some shares which had been purchased out of funds temporarily in excess of requirements.
(*g*) Profit arising from the re-purchase in the open market at a discount of some of the Company's own debentures.

(*R.S.A.*)

14. On 1st December, 1949, John Brownlow files his petition in bankruptcy, and you are instructed by the Official Receiver in Bankruptcy to assist the debtor in the preparation of a Deficiency Account. Your investigations disclose the following information—

Assets

	Book Value	Estimated to Produce
Freehold property of a book value of £12,000 estimated to produce £10,000, a first mortgage thereon having been given to fully secured creditors, and a second charge, limited to £1,000, to partly secured creditors.		
	£	£
Stock-in-Trade	5,784	3,900
Trade Fixtures and Fittings	700	300
Book Debts—		
Good	6,141	6,141
Doubtful	2,701	2,000
Bad	1,733	*Nil*
Bills Receivable	300	*Nil*
Cash in hand	27	27

Liabilities

His liabilities amounted to £35,450, o. which £7,400 was fully secured, £3,800 partly secured, and £250 was preferential. In addition, there was a contingent liability on bills under discount of £2,740, of which £200 was expected to rank. He has household furniture of the estimated value of £250, and two life policies, the surrender value of which was £600. The two latter items were not in his books of account.

On 1st January, 1947, his capital was £13,000.

During the three intervening years, trading results, interest on capital, and drawings were as follows—

	Trading Results	Drawings	Interest on Capital
	£	£	£
To 31st December, 1947, profit	376	840	650
,, 31st December, 1948, loss	7,523	1,000	600
,, 31st December, 1949, loss	9,981	1,500	154

The Statement of Affairs shows a deficiency of £12,432.

You are required to prepare a Deficiency Account, but *not* a Statement of Affairs.

15. Prepare Revenue Account and Balance Sheet of the Livelong Assurance Co. from the following list of balances extracted from its books on 31st December, 1949—

	£
Share Capital Account	1,000,000
Amount of Life Fund at beginning of year	2,832,000
Premiums on business—	
Outside the United Kingdom	5,000
Within the United Kingdom	463,000
Surrender of Policies	18,000
Sundry Creditors	10,000
Claims paid	197,000
Claims admitted but not paid	7,900
Expenses of Management	17,000
Cash at Bank	13,700
Outstanding Premiums and Agents' Balances	37,200
Interest, Dividends, and Rents Receivable	150,000
Mortgages on Property within the United Kingdom	200,000
Loans on Life Interest	75,000
Loans on Company's Policies	400,000
Investment in Municipal Securities	300,000
Investment in Colonial Government Securities	700,000
Investment in Freehold Ground Rents	600 000
Investment in British Government Securities	1,900,000
Outstanding Interest, Dividends, and Rents	5,000
Reserve Fund	50,000
Re-insurance Premiums paid	6,000
Commission paid	19,000
Bonuses to Policyholders in cash	3,000
Premises and Furniture	27,000

16. B Limited issues £5,000 debentures on 1st January, 1950, at a discount of 5 per cent, repayable in annual drawings of £1,000, commencing 1st December, 1950. The company's year ends on 31st December. Calculate the amounts to be written off in the five years, assuming that the company decides to write off the Debenture Discount Account during the life of the debentures.

17. A motor agent sold a car to X on the hire-purchase system, the cash price being £950. X took the car on 1st January, 1947, and agreed to pay a deposit of £200 on 1st January, 1947, and five yearly instalments of £173 4s. 6d., the first to be paid on 31st December, 1947.

Make all necessary entries in the books of the agent for the years 1947, 1948, and 1949. Interest is calculated at the rate of 5 per cent.

who appears before the District or Special Commissioners in support of the assessment.

Rates of Income Tax. Until the year 1920–21 the rates of income tax were graduated according to the total income of the taxpayer. By the Finance Act, 1920, however, and all subsequent Finance Acts, a **standard rate** was fixed, with the proviso that a certain portion of taxable income should be charged at a reduced rate. The standard rates and the Reduced Rate Relief for the years 1930–31 and onwards are as follows—

Year	Standard Rate in £	Reduced Rate Relief
1930–31	4s. 6d.	2s. 6d. in £ on first £250
1931–32	5s.	2s. 6d. " " £175
1932–33	5s.	2s. 6d. " " £175
1933–34	5s.	2s. 6d. " " £175
1934–35	4s. 6d.	2s. 3d. " " £175
1935–36	4s. 6d.	3s. " " £135
1936–37	4s. 9d.	3s. 2d. " " £135
1937–38	5s.	3s. 4d. " " £135
1938–39	5s. 6d.	3s. 10d. " " £135
1939–40	7s.	4s. 8d. " " £135
1940–41	8s. 6d.	3s. 6d. " " £165
1941–46	10s.	3s. 6d. " " £165
1946–48	9s.	6s. " " £50 and 3s. in £ on next £75.
1948–50	9s.	6s. " " £50 and 3s. in £ on next £200.
1951–52	9s. 6d.	3s. " " £50 and 5s. 6d. in £ on next £200.
1952–53	9s. 6d.	3s. in £ on first £100; 5s. 6d. in £ on next £150; 7s. 6d. in £ on next £150.
1953–54, 1954–55	9s.	2s. 6d. " " £100; 5s. in £ on next £150; 7s. in £ on next £150.

Statutory, Assessable, and Taxable Income. The statutory income of a person is his total income from any, or if he has more than one, from every source, stated in accordance with the provisions of the Income Tax Acts. As regards taxed dividends, etc., and Schedule E the "income" required is the *actual* income of the year of assessment; from other sources (Schedule D), it is usually the income of the year *previous* to the year of assessment; from other sources (Schedule B), it is an *assumed* income. The **assessable** income of a person is his total statutory income less the allowance made in respect of earned income. The **taxable** income of a person is his assessable income (or his statutory income if he has no earned income), less the allowances made for himself, housekeeper, dependent relatives, and, if married, his wife and children.

Earned Income. This includes salaries and wages of employees, pensions, etc., salaries from public office or employment, managing director's remuneration, profits from the occupation of farms, profits from trade or business, including partners' salaries and

of the District Commissioners is final, there is no appeal; but, on questions of *law*, an appeal can be made to the High Court and thence to the Court of Appeal, and to the House of Lords, against the decision of either the Special or the District Commissioners. The Special Commissioners assess Railway Officials under Schedule E, Interest and Dividends from public stocks under Schedule C, and they also make sur-tax assessments. The Commissioners of Inland Revenue are *ex-officio* Special Commissioners.

Official Year of Assessment. The year of assessment runs from 6th April of one year to 5th April of the next year.

Income Tax Officials. Assessors are paid officials appointed by the District Commissioners. They make assessments under Schedules A, B, D, and E. Where no return is made, the assessor estimates the amount of income and inserts it. The list of the names and amounts is in each case handed to the Commissioners. Assessments under Schedules A, B, and E are passed to the Inspector of Taxes, and assessments under Schedule D to the Additional Commissioners, for examination, before being allowed by the District Commissioners. The **Inspector of Taxes** is a paid official of the Board of Inland Revenue. Early in April of each year he issues the well-known Form No. 1 to firms, companies, corporations, societies, and other bodies of persons, and Form No. 11 to individuals, having untaxed income liable under Schedule D. He also issues Form No. 12 to all individuals liable under Schedule E. Forms Nos. 11 and 12, in addition to the sections dealing with the various sources of income, contain also sections relating to the various allowances and reliefs which may be claimed by individuals. The forms must be completed and returned within twenty-one days. Every person, whether liable to tax or not, must make a return when called upon to do so (Income Tax Act, 1918, sec. 100), and the onus is upon the taxpayer to obtain such a form if one is not received from his or her Inspector of Taxes. Where a person has a business address as well as a private residence, e.g. an employer or a partner in a firm, double forms may be received (1A, 11A, 12A, issued by assessors). Only one form need be filled up. On the second form it is sufficient merely to sign the declaration that a full Return has been made elsewhere, and add the address of the business, or the private residence, as the case may be. The Inspector's duty is to supervise the returns of taxpayers and the assessments made by the Assessors before they are allowed by the Commissioners. He is also empowered to fill in omissions, amend assessments, and to make surcharges. The amount of the assessment can always be satisfactorily arranged with the Inspector if proper accounts are furnished. Notice of appeal against an assessment must be forwarded in writing, within twenty-one days of the date of the assessment notice, to the Inspector of Taxes,

The following are now the allowances—

Where the gross assessment does not exceed £40		.	One-fourth
,, ,, ,, exceeds	£40 but not £50	.	£10
,, ,, ,, exceeds	£50 but not £100	.	One-fifth
,, ,, ,, exceeds	£100	.	£20

plus one-sixth of the amount by which the assessment exceeds £100

Example—

	£	s.	d.
Yearly Rent at 17s. 6d. per week . . .	45	10	–
Less Rates (paid by Landlord) . . .	11	–	–
Gross Annual Value . . .	34	10	–
Less Allowance for Repairs (one-fourth) .	8	12	6
Net Annual Value . . .	£25	17	6

How Farm Property is Assessed. The assessments of farm or agricultural property are made in a similar manner, *less* the amount of tithe payable and land tax. With this kind of property, however, repairs are not such a heavy item of expense, and, consequently, the statutory allowance for repairs is only one-eighth. The following is an example—

Yearly Rent	£480
Less Allowance for Repairs, one-eighth . .	60
	420
Less Tithe (assessed on Owner) say . . .	40
Net Annual Value .	£380

Maintenance Claim. Where the cost of repairs and maintenance, upon the average of the preceding five years, exceeds the deduction allowed for the purpose, a claim may be made for repayment of tax suffered on such excess cost.

Collection of Tax under Schedule A. The tax under Schedule A is usually collected from the tenant, and the tenant is empowered by law to recoup himself by deducting the amount of the tax so paid from his next payment of rent. The landlord is bound by law, on being shown the official receipt, to allow such a deduction. Where, however, the net assessment is higher than the rent, the tenant can only recover tax on the actual rent he pays. Thus, if the net assessment is £70 and the rent £60, the tenant will pay tax on £70, but can only deduct from the landlord tax on £60. He must bear the tax on £10 himself, as he has a beneficial interest in the assessment. In cases where the annual rent of property is less than £10, and also where land and buildings are let for a less period than one year, the tax under Schedule A is levied direct on the landlord.

The landlord may, if he wishes, ask the Commissioners to levy the tax on his property direct on himself instead of on the tenant. If so, he must, before the 31st of July in the year of assessment, make application to the Inspector of Taxes for the special form necessary. In case of default, however, the tax can still be levied on the tenant.

Nature of Income Taxed under Schedule A. Income assessable under Schedule A is treated as *investment* income, but in cases where a house, rent free, forms part of a person's salary or emoluments, the net annual value is, *if assessable*, regarded as *earned* income.

SCHEDULE B

Scope of Tax. The tax under Schedule B was levied on the profits arising from the *use* of agricultural lands, including farms, nursery and market gardens, etc., on a sum equal to three times the gross annual value.

Land not wholly used for the purpose of husbandry is assessed at one-third of the gross annual value. Dwelling houses with not more than one acre of garden are not assessed under Schedule B. Where more than one acre is attached to a dwelling house, the excess is chargeable under Schedule B at one-third of the gross annual value, i.e. of the rental value.

With effect from the year 1949–50, all farming profits are assessed under Schedule D, and Schedule B is limited to amenity lands and woodlands, on which the assessment is one-third of the gross annual value. Woodlands managed on a commercial basis may, at the option of the taxpayer, be assessed under Schedule D.

SCHEDULE E

Scope of Tax. Under Schedule E, tax is levied on all income from public offices or employment, from annuities (except those taxed under Schedule C), pensions, and stipends payable out of public revenue, or by public or limited companies, or private firms.

Mode of Assessment. Assessments are made, under Schedule E, on officials of the Government, including the Civil Service, officials of the law courts, and of any public body, society or corporation, and on officers of the Navy and Army. Employees of limited companies and private firms are also assessed under this schedule. Directors Fees are also chargeable under Schedule E, tax being levied direct on the recipient.

How the Tax is Collected. The tax under this schedule has in the past been paid by the individual himself. In Government offices, however, tax was deducted from the salaries paid to officials. Railway companies were also empowered to deduct tax from the salaries paid to their employees, except weekly wage-earners.

Under the Finance Act, 1940, the method of deduction by the employer was extended to all businesses. The method of collection by deduction at the source is, of course, economical and rapid, and as the result of war conditions this method was first made compulsory for all taxpayers in respect of the fiscal year 1940–41 and has been continued.

Return of Employees and Salaries. Employers, corporations, and limited companies may be required under Section 105 of the Income Tax Act, 1918, to make a return of the names and addresses of their employees. and of the salaries, fees, commission, bonus, etc., paid to them. The payments made to employees whose incomes do not exceed £120 (Finance Act, (No. 2) 1945), and who are not employed in any other employment, may, however, be omitted.

Salary Free of Tax. In the case of a salary paid *free of tax*, tax is payable on the gross amount, that is, on such a sum as will, when the tax is deducted, leave the exact amount of the salary paid to the employee. If the amount of the tax is known, the assessment will be the amount of the year's salary plus the year's tax. But where the amount of the tax is not known as in the case of a new employee, or where it is not given as in an examination question, it has to be calculated. The treatment of the allowances granted to the employee is a matter for agreement between the parties concerned; in some instances the employer takes the benefit of the allowances, in others the employee, and sometimes the benefit is shared between them. For an example see page 1041.

Nature of Income Taxed under Schedule E. Income taxed under Schedule E is regarded as *earned* income.

"Pay as You Earn." From 6th April, 1944, income tax of employees has been deducted from pay under an entirely new scheme. The tax due in respect of any pay is deducted from that pay before it is received, so that, in general, the whole of the tax due on the year's earnings has been paid by the end of the income tax year. Employees get a "notice of coding" showing the allowances to be set against the salary or wages, and a corresponding code number. This code number is notified to the employer and he is required to deduct tax from a person's salary in accordance with that code. The scheme is a complete change from that previously operating, and it is impossible here to go into all its details. Very complete explanations are, however, given in the official circulars and books.

SCHEDULE D

Scope of Tax. Income taxable under Schedule D comprises all income arising from the following—

Case I. Trade, Manufacture, Adventure, or concern in the nature of Trade, Profits of Railways, Mines, Quarries, Markets, Gas, and Water Works.

Case II. Professions or Vocations.

Case III. Untaxed interest and tithes.

Case IV. Profits from Colonial and Foreign Securities, where tax has not been deducted by the agent entrusted with payment thereof.

Case V. Profits from Foreign and Colonial Possessions.

Case VI. All annual profits or gains not included under the foregoing heads and not charged under any other schedule.

Mode of Assessment. Persons who are assessable to income tax under Schedule D have the option of being assessed either by the District Commissioners (*a*) in the ordinary course; (*b*) under a number or letter; or by the Special Commissioners. If they make no choice, they will be assessed in the ordinary course by the District Commissioners. As an example traders who have personal friends or business rivals among the local commissioners may elect to be assessed by the Special Commissioners.

Returns for Assessment. Returns for assessment by the District Commissioners under a letter or number must be sent to the Clerk to the Commissioners. Returns for assessment by the Special Commissioners must be forwarded to the Inspector of Taxes under cover marked "For Special Assessment." In other cases, the form must be returned to the Assessor or Inspector by whom it was issued. The form must in all cases be filled up before being returned, even if the return is nil. Anyone who neglects to make a return, or who makes an untrue or incorrect return, is liable to the penalties mentioned on the form.

Profits from Colonial and Foreign Securities and Possessions. If these profits have been received through an agent who has deducted British income tax, they must not be entered on the Return Form. In cases where British income tax has not been deducted, the full amount of the income, whether received in Great Britain or Northern Ireland or not, must be returned for assessment, subject, in the case of income not received in Great Britain or Northern Ireland, to deduction for any income tax deducted at the source. The assessment is based on the income of the preceding year. This applies to securities, stocks, shares, and rents.

Profits from Discounts, and Interest on Money not Taxed by Deduction. Under this heading are included all discounts and untaxed interest received or credited, interest on banking account or deposits, and also dividends of which the half-yearly amount does not exceed fifty shillings, where such dividends are not payable on coupons annexed to stock certificates payable to bearer. The normal basis of assessment is the income of the preceding year, but there are special provisions as regards sales and purchases of securities so that as regards, say, 3½ per cent War Loan (interest paid gross) the assessment is always an "actual."

Profits of Trade, Profession, or Vocation. Where income is derived from the exercise of any business, profession or vocation, the amount of income to be returned for assessment in any given year is neither the actual income of that year, nor the income which a person expects to make in that year, but is a "statutory" income, the amount of which is to be computed from actual ascertained figures. These are the figures shown by the accounts of the business or profession for the year immediately preceding the year for which a return has to be made. It should be understood that the preceding year in this connexion is taken to mean the year ended on the date falling within the preceding year of assessment to which the accounts are usually made up. The computation is to be made according to prescribed rules, of which the following is an abstract—

RULES FOR CALCULATING PROFITS

In computing the amount of the profits or gains to be charged, no sum shall be deducted in respect of—

(*a*) Any disbursements or expenses, not being money wholly and exclusively laid out or expended for the purposes of the trade, profession, or vocation:

(*b*) Any disbursements or expenses of maintenance of the parties, their families, or establishments, or any sums expended for any other domestic or private purposes distinct from the purposes of such trade, profession, or vocation:

(*c*) The rent or annual value of any dwelling house or domestic offices or any part thereof, except such part thereof as is used for the purposes of the trade or profession: Provided that where any such part is so used, the sum so deducted shall be such as may be determined by the Commissioners, and shall not, unless in any particular case the Commissioners are of opinion that, having regard to all the circumstances some greater sum ought to be deducted, exceed two-thirds of the annual value or of the rent bona fide paid for the said dwelling house or offices:

(*d*) Any sum expended for repairs of premises occupied, or for the supply, repairs, or alterations of any implements, utensils, or articles employed for the purposes of the trade, profession, or vocation beyond the sum actually expended for those purposes:

(*e*) Any loss not connected with or arising out of the trade, profession, or vocation:

(*f*) Any capital withdrawn from, or any sum employed or intended to be employed, as capital in such trade, profession, or vocation:

(*g*) Any capital employed in improvements of premises occupied for the purposes of the trade, profession, or vocation:

(*h*) Any interest which might have been made if any such sums as aforesaid had been laid out at interest:

(*i*) Any debts, except bad debts, proved to be such to the satisfaction of the Commissioners, and doubtful debts to the extent that they are respectively estimated to be bad. In the case of the bankruptcy or insolvency of a debtor, the amount which may reasonably be expected to be received on any such debt shall be deemed to be the value thereof:

(*j*) Any average loss beyond the actual amount of loss after adjustment:

(*k*) Any sum recoverable under an insurance or contract of indemnity:

(*l*) Any annual interest, or any annuity, or other annual payment payable out of the profits or gains, including any interest paid on arrears of excess profits duty or munitions exchequer payments.

(*m*) Any royalty or other sum paid in respect of the user of a patent.

Where the premises are occupied solely for the purposes of the trade, profession, or vocation, the net Schedule A assessment is allowed as a deduction.

It will be observed that certain items are disallowed entirely, while others are limited or subject to conditions. The criterion to be applied as regards any item not specifically mentioned is whether or not it is an expense wholly and exclusively incurred for the purpose of the trade, profession, or vocation. Depreciation of fixed assets is treated as a loss of capital, but a deduction for wear and tear of plant and machinery may be claimed; the Income Tax Act, 1945, deals with this complicated subject. Income tax payments are not regarded as a business expense, but as an appropriation of income already earned. The student, in studying the examples which follow, should carefully refer each item to the rules quoted above, and satisfy himself as to the provisions under which it falls to be treated.

The tax extends to all trades, professions, and vocations carried on in the United Kingdom, or elsewhere, by persons who are resident in this country; and also to all trades, professions, and vocations carried on in the United Kingdom by persons who are resident abroad.

Arrangements exist, however, whereby reciprocal agreements may be made between H.M. Government and any Foreign or Colonial Government for the purpose of granting, within certain limits, exemption from double taxation.

ALLOWANCES

The Allowances mentioned in this Section are those in force for 1955–56.

Exemptions. An individual who proves that his total income does not exceed £180 is entitled to exemption from income tax.

Small Income Relief. Where the income of an individual for the year does not exceed £300, an allowance of two-ninths of the income will be made, whether or not the income is earned. In cases where the income exceeds £300 but is less than £397, the tax payable may not exceed the amount which would have been payable if the income had been £300 plus nine-twentieths of the income in excess of £300.

Rate of Tax. Tax is chargeable at the full standard rate of 8s. 6d. in the £ on the total income from all sources. From the tax thus computed a deduction at the full standard rate is made in respect of earned income relief and the various allowances enumerated below. In addition, a *deduction* at the rate of 6s. 3d. in the £ is made in respect of the first £60 of taxable income, and at the rate of 3s. 9d. in the £ on the next £150, of taxable income, and at

the rate of 1s. 9d. in the £ on the next £150 of taxable income. Taxable income exceeding £360 is therefore *charged* at full standard rate. A wife in employment is entitled to the benefit of the relief for her separate earnings. The relief will be given on the amounts remaining after deducting the two-ninths Earned Income Allowance, and the additional Personal Allowance of seven-ninths up to a maximum of £140.

Earned Income Relief. An allowance of two-ninths is made in respect of earned income up to a limit of £2,025 (maximum allowance, £450).

Personal Allowance. Every individual is entitled to claim a personal allowance, irrespective of the amount of his income, viz.,

(*a*) In the case of a married man whose wife is living with him, or, if not living with him, is wholly maintained by him, the personal allowance is £240. If the total income includes any *earned* income of the wife, the personal allowance of £240 may be increased by seven-ninths of the amount of the wife's earned income, but the maximum addition to the personal allowance must not exceed £140.

(*b*) In any other case the personal allowance is £140.

Examples.

A is a single man earning a salary of £450 a year. His income from investments is £50.

State the taxable income.

		£
Total Income		500
Deductions—		
Earned Income Relief	£100	
Personal Allowance	140	
		240
Taxable Income		£260

B earns £330 a year and his wife £30. What is the tax payable?

	£ s. d.	£ s. d.
Total Income		360 - -
Deductions—		
Earned Income Relief	80 - -	
Personal Allowance (£240 + £23 6 8)	263 6 8	
		343 6 8
Taxable Income		£16 13 4

Tax payable—

£16 13s. 4d. @ 2s. 3d. = £1 17s. 6d.

C. Married couple, no children. Husband earns a salary of £486 per annum, the wife earns £99. State the tax payable.

		£
Total Income		585
Deductions—		
Earned Income Relief, two-ninths . .	£130	
Married Allowance	240	
Wife's Earned Income Allowance seven-ninths of £99	77	447
Taxable Income		£138

	£	s.	d.
Tax payable—			
£60 at 2s. 3d.	6	15	–
£78 at 4s. 9d.	18	10	6
	£25	5	6

Note. In calculating Earned Income Relief it is usual to work to the nearest pound.

Children. Any taxpayer who has a child or children living who are under 16 at the commencement of the year of assessment, or who are over that age, provided they are receiving full-time instruction at an educational institution recognized by the Ministry of Education, is entitled to relief from income tax equal to the amount of tax on £100 in respect of each such child. This allowance also applies to adopted children and to step-children. The relief is not allowed if the child is entitled in his own right to income exceeding £85 a year.

In calculating this income, any amount to which the child is entitled as the holder of a scholarship or similar educational endowment is omitted. Allowance may be claimed for children born *during* the year of assessment.

Example. A's salary is £450 a year, and he has investments (taxed at source) yielding £270 gross. He is married and has four children; two are under 16 years of age, one is 18 years old, but is receiving full-time instruction at a technical school; the other is 15½ years of age, but is at work, receiving £90 a year as wages.

What is A's taxable income?

		£
Total Income		720
Deductions		
Earned Income Relief	£100	
Personal Allowance	240	
Children's Allowance, 3 @ £100	300	
		640
Taxable Income		£80

Notes. (i) The allowance cannot be claimed for the child who is 15½ years old, as his income exceeds £85 a year.

(ii) A should claim repayment of the difference between the amount of tax deducted from investment income and the amount for which he is liable.

Relatives Taking Charge of Children (Housekeeper's Allowance). An allowance of £60 is granted to a widower in respect of a female relative of his or of his deceased wife, who is resident with him for the purpose of having charge and care of any children of his in respect of which the children's allowance may be claimed, or to a widow who has a female relative of hers or of her deceased husband living with her for the same purpose. If the widower or widow has no such female relative, the deduction may be claimed in respect of some other female person employed for that purpose. An unmarried person who has living with him, and who maintains at his own expense, either his widowed mother or some other female relative for the purpose of having care of the taxpayer's brothers and sisters in respect of whom the children's allowance can be claimed, is also entitled to a deduction of £60

Any person who is able to claim child allowance and who has resident with him a female person, either maintained or employed by him for the purpose of having care of children, may claim a similar allowance.

Example. A, a widower, whose earned income is £666, has three children under 16 years of age. To take charge of these children A's unmarried sister lives with him. What is his liability?

		£
Total Income		666
Deductions—		
Earned Income Relief	£148	
Personal Allowance	140	
Children	300	
Housekeeper's Allowance	60	
		648
Taxable Income		£18

	£	s.	d.
Tax payable—			
£18 @ 2s. 3d.	2	-	6
	£2	-	6

Dependent Relatives. An allowance of £60 is granted to a taxpayer who maintains at his own expense (*a*) a relative of his or of his wife, who is incapacitated by old age or infirmity from maintaining himself or herself; (*b*) a widowed mother (whether incapacitated or not) of himself or his wife. The allowance is granted only if the income of the dependent relative does not exceed £165 a year; if the total income of the dependant exceeds £105, the allowance will be reduced by the amount by which such income exceeds £105. A female taxpayer can similarly claim.

An allowance of £40 is granted to a taxpayer who maintains a daughter resident with him if by reason of old age or infirmity he is compelled to depend upon her services. There is no limitation on the relief by reason of the income of the daughter. If claimant is a widower or widow, claim should be made for the daughter as housekeeper, as this allowance is £60.

Life Assurance Premiums. From the amount of tax calculated on the income, an allowance for life assurance premiums may be claimed in respect of premiums paid on the taxpayer's own life and on that of his wife, subject to the following rules—

(*a*) No allowance is made on premiums beyond one-sixth of the total income from all sources.

(*b*) No allowance may be made for premiums on any policy beyond 7 per cent of the sum assured at death, all bonuses, etc., being ignored.

(*c*) If no sum is secured at death the allowance may not exceed tax (at the rate applicable) on £100.

It is further provided that, in the case of assurances or contracts for deferred annuities made after 22nd June, 1916: (1) no allowance whatever can be made unless a capital sum at death is secured, either alone or with other benefits; (2) in the case of policies of deferred assurance no allowance may be made in respect of premiums or payments payable during the period of deferment. It should be noted, however, that policies or contracts in connexion with a superannuation fund or bona fide pension scheme are not subject to these two restrictions.

Rates of Allowance for Insurance Premiums—

(1) Where the policy was taken out before 22nd June, 1916—

(*a*) 3s. 6d. in the £ where the total income does not exceed £1,000.
(*b*) 5s. 3d. in the £ where the total income exceeds £1,000 but not £2,000.
(*c*) 7s. in the £ where the total income exceeds £2,000.

Relief is given at these rates on premiums only up to the amount of the taxable income.

(2) Where the policy was taken out after 22nd June, 1916—

For the year 1949–50 and subsequent years of assessment, two-fifths of the standard rate; but where the premiums ranking for relief do not exceed £25,

relief is to be at the standard rate on £10 or on the amount of the premiums, whichever is the less.

Marginal Relief in Respect of Life Assurance Premiums. To prevent anomalies arising from the fact that, on policies taken out on or before the 22nd June, 1916, the larger the income the greater the allowance for life assurance premiums (3s. 6d., 5s. 3d., and 7s. respectively), it was enacted by the Finance Act, 1920, Section 26 (7), subsect. (9), as follows—

Where the tax ultimately payable by any person after deducting the allowance under this section is greater than the amount of tax which would be payable if the total income of that person exceeded £1,000 or £2,000, as the case may be, the allowance under this section shall be increased by a sum representing the amount by which tax at one-fourth of the maximum allowance rate on the amount of the premiums or payment in respect of which the allowance is made exceeds the amount of the tax at the standard rate on the amount by which the total income falls short of £1,000 or £2,000, as the case may be.

Insurance Premiums Not Allowed.

(1) On policies taken out after 22nd June, 1916, which do not provide for a capital sum at death, and for deferred assurance during period of deferment.

(2) Policies in which a life risk is not included.

(3) On lives other than those of the taxpayer or his wife.

(4) Accident policies unless they cover death.

(5) Sickness policies—allowed if relating to a death risk.

Insurance Premiums Allowed.

(1) On whole life policies.

(2) Endowment policies with capital sum payable at death.

(3) Compulsory payments for deferred annuity to widow or children, under terms of an employment.

(4) Deferred annuity policies for widows or children.

(5) Like payments to friendly societies.

Example. Small income relief.

		£
Retired person, single, investment income only		189
Less Small Income Relief, two-ninths	£42	
Personal Allowance	140	
		182
		£7
Tax payable—£7 at 2s. 3d.		= 15s. 9d.

Age Allowance. Where a man or his wife (living with him) has at any time during the year attained the age of 65 years, and the

total income does not exceed £600, a deduction of two-ninths of the unearned income may be claimed.

In cases where the income is not a great deal more than £600 for the year, tax is charged on £600 plus three-fifths of the difference between the total income and £600 if this is more advantageous than receiving no age allowance. This special marginal relief does not reduce the tax liability where the total income (being unearned income) exceeds £907 in the case of a married man or £857 in the case of a single person.

Example. Married man, over 65, receives gross dividends from investments totalling £618. Show the saving to the taxpayer due to age relief.

			£ s. d.	£ s. d.
Tax payable without age relief—				
Income		£618		
Less Married Allowance		240		
Tax chargeable on		£378		
First £60 is taxable at 2s. 3d.			6 15 -	
Next £150 is taxable at 4s. 9d.			35 12 6	
Next £150 is taxable at 6s. 9d.			50 12 6	
Next £18 is taxable at 8s. 6d.			7 13 -	100 13 -
Tax payable with age relief—				
Income		£600		
Less—				
Age Relief—two-ninths of £600	£133			
Married Allowances	240	373		
		£227		
First £60 is taxable at 2s. 3d.			6 15 -	
Next £150 is taxable at 4s. 9d.			35 12 6	
Balance £17 is taxable at 6s. 9d.			5 14 9	
			48 2 3	
Add three-fifths of income over £600 limit, i.e. three-fifths of £18			10 16 -	58 18 3
Saving to taxpayer				£41 14 9

Age Relief. The investment income of taxpayers whose age is 65 years or over, and whose total income does not exceed £600, is now treated as if it were earned income. In the case of married persons, this relief is granted when either husband or wife is of this age.

"Age" Relief.—Marginal Investment Income. Where the total income as mentioned above exceeds £600, thus penalizing the taxpayer, a marginal relief may be claimed.

Example. Smith has a salary of £630 per annum, and also an annual income of £250 from Investments. He is a married man with three children under the age of 16 years. What amount of tax should he pay?

	£ s. d.	£ s. d.
Total Statutory Income (£630 + £250)		880 - -
Deduct Earned Income Relief ($\frac{2}{9}$ of £630)		140 - -
Assessable Income		£740 - -
Deduct Personal Allowance	240 - -	
,, Allowance for 3 Children	300 - -	
		540 - -
Taxable Income		£200 - -

	£ s. d.
Tax on £60 at 2s. 3d.	6 15 -
,, £140 at 4s. 9d.	33 5 -
Tax payable	40 - -
Less Tax on Investments (already deducted at source) £250 at 8s. 6d.	106 5 -
Net Tax payable	Nil

(Claim may be made from Inland Revenue for repayment of difference, viz. £66 5s.

Method of Computing Tax Payable. The above method of computing the amount of tax payable is the one commonly met with in practice; but the strictly legal method (Finance Acts, 1927, etc.) is the one used by the Inland Revenue, where the reliefs and allowances are deducted in *terms of tax*. Worked by that method, the above example would appear as under—

	£	£ s. d.	£ s. d.
Total Statutory Income (£630 + £250)			880 - -
Tax on above at 8s. 6d. in the £			374 - -
Deductions			
Earned Income Relief	140		
Personal Allowance	240		
Allowance for 3 Children	300		
£680 at 8s. 6d.		289 - -	
Allowance at reduced rate on £60 at 6s. 3d.		18 15 -	
£140 at 3s. 9d.		26 5 -	
Carried forward		334 - -	374 - -

	£	s.	d.
First £60 taxable at 2s. 3d.	6	15	-
Next £66 taxable at 4s. 9d.	15	13	6
Total Tax	£22	8	6

Note. Tax on the business will be payable in equal instalments on 1st January and 1st July. Tax on the salary will be deducted by the employers of the husband under P.A.Y.E.

Example. Wife working in husband's business. The profits are assessed at £600, after allowing £390 (£7 10s. per week) actually paid to the wife as wages.

The Tax payable will be as follows—		£	£	£
Business		600		
Wife's Wages		390		390
		£990		£390
Less—				
Earned Allowance, two-ninths	£220		86	
Married Allowance	240			
Wife's earned Allowance (max.)	140	600	140	226
		£390		£164

Chargeable as follows—	£	s.	d.
Reduced rate on Wife's Income—			
£60 at 2s. 3d.	6	15	-
£104 at 4s. 9d.	24	14	-
Reduced rate on Business—			
£60 at 2s. 3d.	6	15	-
£150 at 4s. 9d.	35	12	6
£16 at 6s. 9d.	5	8	-
£390	£79	4	6

The tax on the business will be payable in two equal instalments on 1st January and 1st July; that relating to the wife's earnings must be deducted by the husband in accordance with her notice of coding when paying his wife's wages, and remitted by him monthly to the Inland Revenue under P.A.Y.E.

Statutory, Assessable, and Taxable Income. These terms have already been explained on page 1026, to which reference should be made.

An example illustrating them now follows.

Example. Smith has a salary of £630 per annum, and also an annual income of £250 from Investments. He is a married man with three children under the age of 16 years. What amount of tax should he pay?

	£	s.	d.	£	s.	d.
Total Statutory Income (£630 + £250) . . .				880	-	-
Deduct Earned Income Relief ($\frac{2}{9}$ of £630) . .				140	-	-
Assessable Income . . .				£740	-	-
Deduct Personal Allowance	240	-	-			
„ Allowance for 3 Children	300	-	-			
				540	-	-
Taxable Income . . .				£200	-	-

	£	s.	d.
Tax on £60 at 2s. 3d.	6	15	-
„ £140 at 4s. 9d.	33	5	-
Tax payable	40	-	-
Less Tax on Investments (already deducted at source) £250 at 8s. 6d.	106	5	-
Net Tax payable	Nil		

(Claim may be made from Inland Revenue for repayment of difference, viz. £66 5s.

Method of Computing Tax Payable. The above method of computing the amount of tax payable is the one commonly met with in practice; but the strictly legal method (Finance Acts, 1927, etc.) is the one used by the Inland Revenue, where the reliefs and allowances are deducted in *terms of tax*. Worked by that method, the above example would appear as under—

	£	s.	d.	£	s.	d.
Total Statutory Income (£630 + £250)				880	-	-
Tax on above at 8s. 6d. in the £				374	-	-

Deductions

	£
Earned Income Relief . . .	140
Personal Allowance . . .	240
Allowance for 3 Children . .	300

	£	s.	d.	£	s.	d.
£680 at 8s. 6d. .	289	-	-			
Allowance at reduced rate on £60 at 6s. 3d. . . .	18	15	-			
£140 at 3s. 9d. . . .	26	5	-			
Carried forward .	334	-	-	374	-	-

	£	s.	d.	£	s.	d.
Brought forward	334	–	–	374	–	–
				334	–	–
Tax payable				40	–	–
Tax on Investments (£250 at 8s. 6d.)				106	5	–
Net Tax payable				Nil		

(See note *re* Claims above.)

DEPRECIATION AND WEAR AND TEAR ALLOWANCE

The treatment of depreciation of assets, for income tax purposes, is now governed by the provisions of the Income Tax Act, 1945, and the Finance Act, 1949, which introduced very substantial modifications of the law on this matter.

Before 1946–47 relief from taxation was limited to an allowance for wear and tear of plant and machinery, that is to say, in charging the profits for any year of assessment an allowance was made from those profits of an amount which in the opinion of the Commissioners represented the diminished value by reason of wear and tear. In the course of time the allowances came to be standard or uniform rates negotiated with the authorities by representatives of the various trade and industrial organizations. The rates were expressed as percentages on the written down values of the plant and machinery, that is the original cost as written down by successive wear and tear allowances. Since 1932 there has been an additional allowance of one-tenth of these amounts, increased in 1938 to one-fifth; these additional allowances were not taken into the computation of the written down value.

For buildings, there was no relief for depreciation except in the case of premises being mills or factories. In the computation of profits for concerns comprising such premises a deduction was granted equal to the repairs allowance under Schedule A.

When plant and machinery became obsolete and was replaced, the difference between the original cost and the aggregate of—

(*a*) the wear and tear allowances previously granted, and

(*b*) the sum realized on sale,

was allowed as a charge in the Profit and Loss Account.

The reader will be aware that there are many considerations to which regard must be had in assessing the amount of depreciation in connexion with the distribution of dividends and with financial policy generally. The Revenue Authorities have always tended to take the view that depreciation of assets is in the nature of loss of capital rather than a proper expense to be taken into account in arriving at a profit or loss figure. In adjusting accounts for income

tax, we have to add back all items of depreciation and claim the reliefs to which there is a title in accordance with the Acts.

The Income Tax Act, 1945, came into operation on the 6th April, 1946, which date is referred to as the "appointed day." The leading features of the Act are concerned with—

(i) Initial Allowances on the first cost;

(ii) Annual Allowances or wear and tear allowances during the life of the assets, or during their retention in ownership;

(iii) Balancing Allowances and Balancing Charges, to secure over-all adjustments when the assets are disposed of or discarded.

The Finance Act, 1949, increased the initial allowances in respect of machinery and plant, and laid down a statutory method of calculating the annual allowances.

Initial Allowance. This is an allowance of—

(*a*) one-tenth of the capital expenditure on construction of industrial buildings and structures;

(*b*) one-fifth of the capital expenditure of a trader on the provision of machinery or plant for the purposes of the trade; for expenditure after 6th April, 1949, the allowance is two-fifths. Initial allowances were suspended as from 6th April, 1952, but are reinstated as regards expenditure incurred after 14th April, 1953, the rate being one-fifth. The allowances are made in the assessment based on the period in which the expenditure is payable.

(*c*) one-tenth of the capital expended in working a mine, oil-well or other source of mineral deposits of a wasting nature.

The definitions of capital expenditure provide for the exclusion of the cost of land and acquisition of sites.

The allowance is made for "the year of assessment in the basis period for which the expenditure is incurred." "Basis period" means the period by reference to which the statutory income for a year of assessment is determined. Thus where a trader makes up accounts annually to the 30th November, we should have—

Year to 30th November, 1945 =Basis period for Year of Assessment, 1946–47.

Year to 30th November, 1946 = Basis period for Year of Assessment, 1947–48.

There are occasions when the basis period is not necessarily the "preceding year." In the case of a new business the assessments for the first three years of assessment are (subject to certain options) determined by reference to the first year's accounts. Also in the case of cessation of a business the Revenue Authorities may re-open the assessment for the year preceding cessation and deal with it on an actual profits basis. The periods of account which determine all these assessments are the "basis periods" for the years of assessment involved.

If a company expended in the year ended 30th November, 1947—

(*a*) £5,800 on constructing a workshop of which £600 was the cost of the land; and

(*b*) £7,500 on machine tools,

the Initial Allowances to be granted in charging tax for 1948–49 would be—

(*a*) £520 being one-tenth of £5,200 (i.e. £5,800 – £600), and
(*b*) £1,500 being one-fifth of £7,500.

Annual Allowances. For every year of assessment there is an allowance of one-fiftieth of the capital expenditure incurred on the construction of industrial buildings or structures; the special reliefs for mills and factories, by reference to the Schedule A repairs allowance, no longer apply.

In respect of machinery and plant, the normal allowance will be a percentage (fixed by the Commissioners of Inland Revenue) of the written-down value. An alternative method is provided by the Finance Act, 1949, whereby a percentage (fixed by the Commissioners) of the original cost is written off each year. In either case the allowance so ascertained is increased by one-quarter.

In the case of mines and oil wells, the annual allowance is one-twentieth of the expenditure as written down by initial allowances and annual allowances; if the output for the year from the source is more than one-twentieth of the total future potential yield the allowance is increased to that proportion.

Balancing Allowances and Charges. When industrial buildings, plant and machinery and mines, etc., are disposed of by sale, or are discarded by reason of obsolescence, there is to be a review of the total capital expenditure in relation to the allowances which have been granted in respect of it together with the amount realized by sale. For example—

	£
Capital Expenditure on Plant and Machinery	8,000
Initial Allowance and Annual Allowance .	6,500
Balance unallowed . . .	1,500
Amount realized (in year ended 31st December, 1947)	450
Difference	£1,050

In this case it will be seen that the amount unallowed is greater than the proceeds realized on discarding the assets. There will be a Balancing Allowance of £1,050 in the year of assessment 1948–49.

If the amount realized had been £2,000 instead of £450, we should have—

	£
Amount unallowed	1,500
Amount realized	2,000
Difference	£500

Here the trader has realized more than the cost of the plant as written down by the allowances. There will be a Balancing Charge on £500 in this case.

There is a limitation on the amount of any Balancing Charge: it is not to exceed the amount of the Initial Allowance (if any) together with the aggregate of all annual allowances, in the case of buildings, or wear and tear allowances in the case of plant or machinery. For this purpose the additional deductions of one-quarter and the earlier additional deductions of one-fifth are brought into the computation.

It should be noted that a Balancing Allowance may be claimed even though the machinery or plant is not replaced. One of the stipulations in connexion with the former obsolescence arrangements was that no allowance would be made if the machinery or plant was not replaced. If the taxpayer does replace the machinery or plant, he has an option to secure reductions in the amount of the Balancing Charge, if he thinks it will pay him to take advantage of it. It will be simpler to indicate the option by figures.

	£
Balancing Charge on	620
Expenditure in providing new machinery .	540
Difference	£80

The taxpayer can elect to have the Balancing Charge reduced to a charge on £80 only. But in that event he must forego any title to Initial Allowance, Wear and Tear Allowance or Balancing Allowance in respect of the new machinery.

Where the expenditure in providing the new machinery exceeds the amount for the Balancing Charge, e.g.—

	£
Balancing Charge on	620
New Expenditure	750
Difference	£130

the taxpayer can elect to have the Balancing Charge withdrawn, in which case the Initial Allowance for the new machinery will be calculated on £130 only, as will the allowances for wear and tear.

It will perhaps now be clear that the intention of the 1945 Act is to make provision for tax relief on the whole of certain classes of capital expenditure, such relief being spread over an appropriate period of years with a system of adjustment at the end to ensure that the taxpayer gets by way of allowances neither more nor less than the original cost less residual proceeds.

Expenditure prior to 6th April, 1946. For the purpose of Initial Allowances capital expenditure incurred between the 6th April, 1944, and the 5th April, 1946 (both dates inclusive), is deemed to have been incurred on the 6th April, 1946. But there is no Initial Allowance for capital expenditure incurred before the 6th April, 1944.

The annual allowances, and increased wear and tear allowance

are available in respect of capital expenditure incurred either before or after the appointed day, the 6th April, 1946. Also Balancing Allowances and Charges apply in the case of all capital expenditure whether incurred before or after the 6th April, 1946.

NON-RESIDENTS

Individuals not resident in the United Kingdom are not allowed any of the reliefs enumerated in the previous pages unless they come within any one of the following categories—

(1) British subjects;
(2) Persons in past or present Government employment;
(3) Persons serving under a British Protectorate;
(4) Missionaries;
(5) Residents in the Channel Islands or Isle of Man;
(6) Widows whose husbands were Crown servants;
(7) Persons formerly resident in the United Kingdom who are compelled to reside abroad for the sake of their own health, or the health of a member of their family resident with them.

The allowance to be made in such cases, however, may not serve to reduce the tax payable below a certain amount, which is determined in the following way: Compute the total income from all sources (British and foreign) and calculate the tax thereon in the ordinary way, as shown in previous examples.

The Acts then require that the minimum tax to be borne by the non-resident must bear the same proportion to the tax thus computed as the British income bears to the total income from all sources.

The working of this provision will be made clear in the following example—

Example. X, a British subject, is resident mining engineer to a South African company at a salary of £600. He has investments in England producing £150 a year in taxed dividends (gross). He is married and wishes to claim relief from the tax suffered on his English dividends. Assuming the total income were liable to British tax, the amount payable for the year 1948–49 would be—

1948–49	Total Income . .		£750
	Earned Income Relief . .	£120	
	Personal Allowance . .	180	
			300
			£450

		£ s. d.
Tax on	£50 @ 3s. . . .	7 10 –
,,	£200 @ 6s. . . .	60 – –
,,	£200 @ 9s. . . .	90 – –
Total	£450	£157 10 –

If we proceed according to the rule given above, the total income £750 must bear the same proportion to the British income of £150 as the total tax £157 10s. bears to the minimum tax due. The minimum will therefore be £31 10s. The actual tax suffered on the dividends arising in England is £67 10s. (£150 @ 9s. in the £), and X may therefore claim repayment of the tax in excess of the statutory minimum, i.e. £36 (£67 10s. less £31 10s.).

EXPENSES AND DEDUCTIONS ALLOWED—SCHEDULE E

An employee is allowed to deduct from his remuneration any sums "necessarily and exclusively" expended by him in the performance of his duties.

Travelling Expenses. These are allowable, except the cost of travelling to and from the employee's place of business.

Hotel Expenses, etc. These are allowable to a commercial traveller and other employees similarly engaged, but such expenses must be reduced by what it would cost the employee to live at home.

Expenses Allowance. Where a Director or an employee receives from his company or firm an allowance for expenses, the allowance will be added to his other remuneration for tax assessment purposes, and it will be necessary for the employee to establish that he has incurred expenses "necessarily and exclusively" in performing his duties.

Guarantee Premiums. These are allowable if paid by the employee.

Wear and Tear. Whilst this is normally looked upon as only affecting Schedule D assessments, an employee who has to maintain a car for the purpose of his work may claim a wear and tear allowance in addition to the ordinary running charges of the car.

RESIDENCE

(1) **Residents in the United Kingdom** are chargeable on all income arising in this country and all income accruing from abroad although in the latter case an adjustment can be claimed if the income is received from a Dominion or Eire.

(2) **Non-residents** are chargeable on all income accruing in this country (except interest on 3½ per cent War Loan; 4 per cent Funding Loan; 4 per cent Victory Bonds; and 2½ per cent National War Bonds, 1945–47); but are not chargeable in respect of income accruing abroad. Any income chargeable will be assessed at the standard rate of tax without any allowances unless the recipient comes within one of the categories mentioned on page 1047.

(3) **Foreign Visitors** to this country are regarded as residents, except in the following circumstances: (*a*) if the visitor is in this country for a temporary purpose only; (*b*) if he is not in this country with a view to establishing a residence; (*c*) if he does not reside here, in the aggregate, for six months during the financial year, unless his annual visits recur so frequently as to constitute an ordinary habit of life. These three conditions are concurrent and *not* alternative.

DOMINION INCOME TAX RELIEF

In the case of income which is chargeable to both United Kingdom income tax and dominion income tax, relief is given from the former at a rate determined as follows—

(*a*) If the dominion rate does not exceed half the appropriate British rate, the relief given is the dominion rate.

(*b*) In any other case, the relief is one-half the appropriate British rate.

The "appropriate rate" is the sum of the appropriate income tax rate and the sur-tax rate (if any).

In the case of income tax this rate is found by dividing the tax payable, before any life assurance relief is allowed, by the *taxable* (not "assessable") income.

The sur-tax rate is ascertained by dividing the sur-tax payable for the previous year by the total income for sur-tax purposes for the previous year.

Example. B has an earned income of £3,000, and investment income of £2,000. He is a married man with two children, and for 1948-49 his appropriate rate will be—

Total Income		£5,000
Less Earned Income Relief (max.)	£400	
Personal Allowance	180	
Children's Allowance	120	
		700
Taxable Income		£4,300

Tax payable—	£	s.	d.
£50 @ 3s..	7	10	-
£200 @ 6s..	60	-	-
£4,050 @ 9s.	1,822	10	-
	£1,890	-	-

			s.	d.
Appropriate Income Tax Rate	= $\frac{£1{,}890}{4{,}300}$	=	8	$9\frac{1}{2}$
Sur-tax (assuming same income for previous year)	= $\frac{£512\ 10s.}{5{,}000}$	=	2	$0\frac{1}{2}$
Appropriate Rate			10	10

EXEMPTION

The following are exempt from assessment for income tax—

(1) The Crown.

(2) Certain *Buildings* under Schedule A, such as public schools, university halls and colleges, hospitals, almshouses, literary and scientific institutions.

(3) Registered Friendly Societies and Trade Unions.

(4) Trustee Savings Banks.

(5) Colleges, Universities, Scientific Institutions.

(6) Charitable Institutions (in so far as their income from rents, interest, and dividends and profit from trading is applied to charitable purposes).

(7) Funds held by Insurance Committees, Approved Societies, and the Government Departments concerned, for the purposes of the National Health Insurance Acts.

If any income is received *less* tax, repayment of the tax can be claimed in the above cases.

Wounds, disablement, and disability pensions, and allowances for children granted by the Ministry of Pensions to the widows of ex-service men, are exempt, and should not be included in the return.

The interest on National Savings Certificates is exempt from income tax, so long as the owner does not hold in his (or her) own name more than the maximum authorized by the Treasury.

SUR-TAX

Rates of Tax. Surtax is regarded as additional income tax, and is based upon the statutory income for the year of assessment. Only one return is now required for the purposes of both income tax and sur-tax. The rates of sur-tax applicable to 1955–56 are—

Part of Income			I.e. Part between			Rate	
1st £2,000 of income			£0 and £2,000			Nil	
						s.	d.
1st £500	above	£2,000	£2,001	,,	£2,500	2	-
2nd ,,	,,	£2,000	£2,501	,,	£3,000	2	6
£1,000	,,	£3,000	£3,001	,,	£4,000	3	6
£1,000	,,	£4,000	£4,001	,,	£5,000	4	6
£1,000	,,	£5,000	£5,001	,,	£6,000	5	6
£2,000	,,	£6,000	£6.001	,,	£8,000	6	6
£2,000	,,	£8,000	£8,001	,,	£10,000	7	6
£2,000	,,	£10,000	£10,001	,,	£12,000	8	6
£3,000	,,	£12,000	£12,001	,,	£15,000	9	6
£5,000	,,	£15,000	£15,001	,,	£20,000	10	-
All above		£20,000	£20,001 and upwards			10	-

Tax for 1955–56 is payable on 1st January, 1957.

Mode of Assessment. Sur-tax is assessed and charged by the Special Commissioners. It is regarded as an instalment of income tax due and payable on the 1st January following the end of the year of assessment to which it relates. The same rights of appeal and recovery of duty apply to sur-tax as to the other portions of the income tax. The sur-tax assessment for each year is based on the total income from all sources for the year of assessment, less deductions for charges such as fixed loan interest, ground rents and annuities (see below). Sur-tax is payable only in respect of individuals.

Limited Companies. The Finance Acts, 1922 and 1927, made provision for sur-tax in the case of certain companies with limited liability.

If the Commissioners consider that any limited company has not, within a reasonable time after the end of any period ending after 5th April, 1922, distributed a reasonable portion of its profits, they may treat the undistributed profits as having been received by the members of the company.

The directors of a company may make a statutory declaration to the effect that in their opinion there has not been and will not be any avoidance of sur-tax through failure to distribute a reasonable part of the income. Unless they see reason to the contrary, the Commissioners will then take no further action in the matter.

The provisions relating to the assessment of sur-tax in the case of companies apply only to companies which are under the control of not more than five persons, and which are not subsidiary companies or companies in which the public are substantially interested. A company is deemed to be under the control of any persons where the majority of the voting power is in the hands of those persons or their nominees. A company in which the public is substantially interested is one in which shares (not being shares entitled to a fixed rate of dividend) with at least 25 per cent of the voting power are held by the public, and such shares have been the subject of dealings on a Stock Exchange in the United Kingdom, during the period concerned, and have been quoted in the official list of securities.

All assessments made for income tax purposes are binding for sur-tax for the same year. Reductions in income tax assessments, e.g. wear and tear, overcharge, losses (Section 34), voids (Schedule A), property maintenance (Schedule A), farm losses (Schedule B) all operate to reduce the total income for sur-tax but personal reliefs and allowances do *not*.

Example. From the Income Tax returns for 1947–48 and 1948–49 relating to A Merchant, the following particulars were extracted.

	£	£
Business Schedule D Assessment, 1947–48, as agreed . . .		2,375
Schedule A Assessment, 1947–48, of Leasehold Warehouse owned and occupied . . .		125
Ground Rent payable thereon (gross) . . .	10	
Private Income: Own Freehold Residence, Schedule A Assessment, 1947–48 net. . . .		80
Dividends received, year to 5th April, 1948 . . .		638
Wife's Income: Freehold House Property let, Schedule A Assessment, 1947–48 . . .		52
Charges: Bank Interest year to 31st December, 1947 . . .	78	

Calculate the amount of Sur-tax payable.

SUR-TAX, 1947–48

	£	£
Profits from Business		
Schedule D Assessment . . .	2,375	
Schedule A Assessment . . .	125	
	2,500	
Less Ground Rent . . .	10	
		2,490
Schedule A		
Own Residence . . .	80	
Wife's House . . .	52	
		132
Investment Income (gross) . . .		638
		3,260
Charges on Income		
Bank Interest year to 31st December, 1947 . . .		78
Total Income from all sources . . .		£3,182

Sur-tax payable on £3,182 – £2,000 = £1,182.

Tax Payable

	£	s.	d.
£500 @ 2s. . . .	50	–	–
£500 @ 2s. 6d. . . .	62	10	–
£182 @ 3s. 6d. . . .	31	17	–
	£144	7	–

Payable on 1st January, 1949.

ADJUSTMENT OF ACCOUNTS FOR ASSESSMENT

The adjustment of accounts for income tax purposes is governed by considerations which may be presented in the form of five rules. Commencing with the profit arrived at by the preparation of a Profit and Loss Account—

(1) Add any capital expenditure which has been charged against revenue and deduct any capital receipts for which credit has been taken.
(2) Add back any personal expenses of the proprietor if any so charged.
(3) Add any expenses not exclusively incurred in earning profits.

(4) Add back any payments, such as Royalties, from which tax has been deducted at the time of payment.

(5) Add back any items carried to a Reserve except a "specific" Bad Debts Reserve.

The following summarizes expenditure which is allowed and that which is not allowed under all normal circumstances—

Expenditure NOT Allowed

1. Private expenditure of any kind of the proprietor.
2. Portion of rent or assessed value of property if it comprises living quarters for the proprietor.
3. Improvement of premises.
4. Any sum recoverable by insurance.
5. Any payment from which tax has been deducted at the time of payment such as a royalty or sum paid for the use of a patent.
6. Income tax paid.
7. Depreciation.
8. Drawings by proprietor.
9. Ground rent.
10. Premiums on leases.
11. Removal of business unless compulsory.
12. Reserves of all types.

Expenditure Allowed

1. Loss of stock by fire.
2. Rent or annual value of premises.
3. Repairs to premises.
4. Insurance for business purposes.
5. Legal expenses for recovery of debts, protection of patent rights, etc., but not connected with capital expenditure.
6. Subscriptions and donations (*a*) where the institution receiving the payment has agreed with the Inland Revenue to pay tax on its profit; (*b*) where it is essentially for the benefit of the business: (*c*) where the staff obtain some benefit as a result of the payment.
7. Air raid precautions expenditure of a reasonable amount.
8. Profits Tax.

Two Methods in Use. There are two methods of ascertaining the amount of profit assessable for income tax purposes—

(1) To take the net profit shown by the Profit and Loss Account, *add* back all those deductions which are not allowed by the Income Tax Authorities, and *deduct* such items as are not taxable or have already been taxed.

(2) To take the gross profit shown by the Trading Account and construct a new Profit and Loss Account, including only such profits as are taxable, and only those losses and expenses which are allowed by the Revenue Authorities to be deducted. If this procedure is adopted it must be borne in mind that the Trading Account itself may contain inadmissible items, e.g. royalties, and adjustments therefor must not be overlooked.

The student should accustom himself to both methods, although Method (2) is rarely operative except in cases where the book-keeping is defective.

Example 1. The following is the Profit and Loss Account of Robert Reynolds, manufacturer, for the year ending 31st Dec.—

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

		£	s.	d.		£	s.	d.
To Bank Interest and Charges		20	-	-	By Gross Profit as per Trading A/c.	2,368	-	-
" Subscriptions and Donations to Charities		15	-	-	" Discounts Received	85	-	-
" Trade Expenses		128	-	-	" Profit on Sale of Investments	45	-	-
" Income Tax, Sch. A @ 9s.		100	-	-	" Dividends, *less* tax	24	-	-
" Income Tax, Sch. D		74	-	-				
" Salaries		426	-	-				
" Discounts Allowed		120	-	-				
" Proprietor's Salary		260	-	-				
" Repairs		32	-	-				
" Bad Debts		87	-	-				
" Bad Debts Reserve	£180							
Less Old Reserve	140							
		40	-	-				
" Fire Insurance		18	-	-				
" Office Expenses		37	-	-				
" Loss by Cashier's Embezzlement (not covered by insurance)		60	-	-				
" Depreciation—								
Lease		80	-	-				
Goodwill		35	-	-				
Plant and Machinery		46	-	-				
" Interest on Loan		24	-	-				
" Interest on Capital		120	-	-				
" Ground Rent		25	-	-				
" Balance (Net Profit)		775	-	-				
		£2,522	-	-		£2,522	-	-

The inspector agrees to an allowance of £25 for wear and tear of plant and machinery, and is prepared to admit as an expense £5 subscription to a local hospital at which employees receive treatment. R. R. claims £23 for life assurance premium. The net assessment under Schedule A is £200. Make up R. Reynolds's return for assessment for the current year.

First Method—

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Deduction of Items—				By Net Profit as per Profit and Loss Account	775	-	-
Annual Value of Premises:	200	-	-	" Deductions not allowed, added back—			
Dividends (taxed)	24	-	-	Subscriptions and Donations	10	-	-
Profit on Sale of Investments	45	-	-	Income Tax	174	-	-
" Balance (Assessable Profit)	1,320	-	-	Proprietor's Salary	260	-	-
				Bad Debts Reserve	40	-	-
				Depreciation	161	-	-
				Interest on Loan	24	-	-
				Interest on Capital	120	-	-
				Ground Rent	25	-	-
	£1,589	-	-		£1,589	-	-

Second Method—

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT *Cr.*

	£	s.	d.		£	s.	d.
To Bank Interest and Charges	20	-	-	By Gross Profit as per Trading Account	2,368	-	-
" Subscription to Hospital	5	-	-	" Discounts Received	85	-	-
" Trade Expenses	128	-	-				
" Salaries	426	-	-				
" Discounts Allowed	120	-	-				
" Repairs	32	-	-				
" Bad Debts	87	-	-				
" Fire Insurance	18	-	-				
" Office Expenses	37	-	-				
" Cashier's Embezzlement	60	-	-				
" Annual Value of Premises	200	-	-				
" Balance (Assessable profit)	1,320	-	-				
	£2,453	-	-		£2,453	-	-

The profit for current year's assessment is—

	£1,320
Deduct claim for Wear and Tear	25
	£1,295

Tax at the full standard rate of 8s. 6d. in the £ will be chargeable on £1,295. Tax at the full rate will be allowed in respect of two-ninths of £1,295 (earned income), of the personal allowances and life assurance relief (on £10); also at 6s. 3d. on £60 and 3s. 9d. on £150 and 1s. 9d. on £150 of the income.

Example 2. The trading results of the A B C Co., Ltd., for the preceding year, as shown by their books, are: Profit £6,842. Before arriving at these figures, the following items have been charged or credited in the accounts—

	£
Pension to late Secretary	180
Directors' Fees	400
Rent of Trade Premises	360
Royalties paid	35
Dividends received	133
Depreciation of Plant and Machinery	240
Amount written off Goodwill	260
Transfer to Reserve	300
Debenture Interest	420
Sinking Fund to repay Debentures	150
Income Tax, Schedule D	270
Bank Interest	20
Transfer Fees received	45

The inspector makes an allowance of £120 for wear and tear of plant and machinery. Make up the Company's Return for Assessment.

INCOME TAX RETURN

	£
Profits as per Profit and Loss A/c	6,842
Loss as per Profit and Loss A/c	
Add deductions not allowed—	
Royalties paid	35
Depreciation of Plant and Machinery	240
Amount written off Goodwill	260
Transfer to Reserve	300
Debenture Interest	420
Sinking Fund instalment	150
Income Tax, Sch. D	270
	8.517
Deduct Dividends (already taxed)	133
Adjusted Profits	£8,384

Profit for current year's assessment	£8,384
Deduct Claim for Wear and Tear =	120
Assessment =	£8,264

at the standard rate, the concern being a limited company.

Note. Bank interest is usually collected by the bank by means of a debit in the customer's account. Tax is not deducted and the amount may, therefore, be claimed as a deduction in the Profit and Loss Account.

Example 3. The assessable profits of Thomas Lupin for income tax purposes for the preceding year ending 30th April, 1948, were £6,275, after adding back £100 Annual Interest on a loan. He occupies his own business premises assessed at £244 gross. He owns house property assessed under Schedule A at £410 net. He receives £250 per annum for directors' fees. His wife has a private income of £715 p.a. free of tax from Investments. He and his wife are insured with a British and also with a New York Life Assurance Co. (London Branch), the annual premium being respectively £200 paid by him and £100 paid by his wife. Compute T. Lupin's liability for tax and sur-tax for the current year.

The business profit returnable for the current year must be the profit of the preceding year ending either on 5th April or prior to 5th April. It will, therefore, be £6,275.

As already stated, sur-tax is based on the statutory income for the year of assessment. But since the taxpayer is entitled to deduct from annual interest and other annual payments, tax at the standard rate only, the amount of such annual payments is allowed as a deduction for sur-tax purposes.

TOTAL INCOME FOR INCOME TAX PURPOSES (1949–50)

	£	s.	d.
Business Profits	6,275	–	–
Annual Value of Business Premises (£244 less £44 repairs allowance—see p. 1085)	200	–	–
Rents of House Property (Sch. A Assessment)	410	–	–
Directors' Fees	250	–	–
Wife's Income from Investments (£715 + £585 for tax at 9s.)	1,300	–	–
Total Statutory Income	£8,435	–	

Of this amount, £1,710 has been taxed at source, and tax on the balance (£6,725) will be charged on T. Lupin at the full standard rate, subject to the following deductions—

Maximum Earned Income Relief	Tax @ 9s. on £400
Personal Allowance	Tax @ 9s. on £180
Allowance at Reduced Rate	Tax @ 6s. on £50 and at 3s. on £200
Insurance Premiums (if allowable)	Tax @ 9s. on $\frac{2}{5}$ of £300

TOTAL INCOME FOR SUR-TAX PURPOSES

	£	s.	d.
Total Statutory Income as above	8,435	–	–
Less Charges	100	–	–
Total Income for Sur-tax	£8,335	–	–

Interest on Loans and on Debentures. Where a trader has deducted tax at the standard rate on any Interest on Loans and is chargeable on his business profits at any lower rate, he must account to the Income Tax Authorities for the difference in tax on such interest; that is, he will not, in his capacity as collector for the Revenue Authorities, be allowed to make any gain therefrom. Again, if in any year he makes a statutory loss, he must still account for tax deducted on any interest. Likewise, a joint stock company would be assessed on its debenture interest, even though for the year of assessment it had made a statutory loss.

PARTNERSHIPS

Partners and Income Tax. The assessment is made on the firm. The allowances to which the partners may be individually entitled will be made on the firm's assessment.

The partners make separate Returns for the purpose of claiming allowances or earned income relief.

Example 1. Jones, Barron, and Kerry are in partnership sharing

profits and losses equally. Jones receives a salary cf £500, Barron £400, and Kerry £300 per annum. The capitals of the partners are—Jones £5,000. Barron £4,000, Kerry £3,000; and by the partnership deed each of the partners is entitled to interest on his capital at 5 per cent per annum. The firm's assessable profits for the previous year, as agreed with the inspector, were £8,253. The partners have no other source of income. Draw up a statement showing how the tax payable by the firm should be allocated among the partners. What difference would it make if the charge for income tax was merely debited to the Rates and Taxes Account as an ordinary business expense?

The allocation as between the partners is—

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS

	Total	Jones	Barron	Kerry
	£	£	£	£
Interest on Capital	600	250	200	150
Partnership Salaries	1,200	500	400	300
Share of Assessable Profit divisible as Profits and Losses	6,453	2,151	2,151	2,151
	£8,253	£2,901	£2,751	£2,601

Each partner would claim the allowances to which he is entitled.

When the tax is paid, the best method of dealing with it is to charge each partner's share direct from the Cash Book to his Drawing Account. If the tax is debited to the Profit and Loss Account and borne in the same ratio as general profits and losses, the result in the present case would be that each partner would thus bear one-third of the tax; Jones would be undertaxed, Barron would be properly taxed, and Kerry would be overtaxed (i.e. Kerry would be bearing a portion of the tax on Jones's profits).

Example 2. Scott, Russell, and Smith are partners in a business and share profits and losses four-ninths, three-ninths, and two-ninths respectively. Their capitals are: Scott £7,000, Russell £6,000, Smith £4,000. The partners draw salaries as follows: Scott £450 p.a., Russell £350 p.a., and Smith £200 p.a. They are also entitled to interest on their capitals at the rate of 5 per cent per annum. Scott has a private income from house property assessed under Schedule A at £300 net. Russell has one child under 16 at the commencement of the year of assessment, and pays a life assurance premium of £55 per annum. His wife has an income of £200 gross from Investments. Smith pays an annual life assurance premium of £30. The assessable business profits, as agreed

with the inspector, were £4,469. Make up the firm's Return for assessment, and show the allocation of the tax among the partners for the year 1949–50.

The firm's assessment will, therefore, be £4,469 *less* the allowances to be made to the partners individually.

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS

	Total	Scott	Russell	Smith
	£	£	£	£
Interest on Partners' Capital	850	350	300	200
Partnership Salaries	1,000	450	350	200
Share of Assessable Profit divisible in same ratio as profits and losses	2,619	1,164	873	582
	£4,469	£1,964	£1,523	£982

Scott's total income is £1,964 plus £300 (already taxed), viz. £2,264. He will claim earned income relief of £393. and the personal allowance.

Russell's total income is £1,523 plus his wife's income £200 (already taxed), viz. £1,723. His allowances will be, earned income relief, £305; personal allowance, £180; allowance for child. £60; insurance premiums on his own life, viz. £55

Smith's total income is £982. Of this, £196 will be allowed as earned income relief. Smith will also claim the personal allowance, and the allowance for insurance premiums.

The firm's assessment will thus be—

Less Allowances—			£4,469
Earned Income Relief:			
Scott	£393		
Russell	305		
Smith	196		
		£894	
Personal Allowance:			
Scott (say)	£110		
Russell	180		
Smith (say)	110		
		£400	
Child's Allowance:			
Russell		£60	
Life Assurance Relief:			
Russell	55		
Smith	30		
	$\frac{2}{5} \times$ 85	£34	
			1,388
			£3,081

Tax would be chargeable at 9s. in the £ upon £4,469. Tax would be allowed at 9s. in the £ upon £1,388 and at 6s. in the £ on £150, and at 3s. in the £ on £600.

Partners and Sur-tax. The following illustration, adapted from a circular issued by the Clerk to the Special Commissioners, should also be carefully studied—

A firm consisting of three members (A, B, and C) might have—

Partnership profits as assessed for the year 1949–50 (say)		£20,000
Partnership income receivable in the year from (*a*) Dividends upon Investments; (*b*) Interest; (*c*) Rents; (*d*) Annual Value of Premises; and (*e*) any other sources of taxed income (say)		
Dividends upon Investments	£2,500	
Interest upon Loans	2,500	
Rents	2,500	
Annual Value of Premises owned and occupied by firm —i.e. the net Income Tax Assessment (Sch. A)	2,500	
		10,000
Total income for Income Tax purposes		30,000
If the firm made any payments to third persons in respect of, for instance, (*a*) Ground Rents, (*b*) Annual Interest on Mortgage or other loans to the firm, (*c*) Annuities payable out of profits, these should be claimed as deductions from the above, as follows (say)—		
Ground Rents	1,000	
Annual Interest	1,000	
Annuities payable out of Profits	1,000	
		3,000
Leaving		£27,000

which represents the sum which for Sur-tax purposes is to be treated as divisible among the partners in the firm.

Supposing, therefore, that for the year 1949–50, under the Deed of Partnership, partner B is entitled to a salary of £1,000 as a first charge in the partnership profits, and that the capital of the firm, amounting for that year to (say) £60,000, held equally by the partners, is next directed to be credited with interest at 5 per cent per annum, and that the balance of the profits is divisible in the proportion of: A, five-tenths; B, three-tenths; C, two-tenths; then the income from the partnership of each member of the firm for Sur-tax purposes for the year 1949–50 would be as follows—

Partnership income for Sur-tax purposes, as shown above		£27,000
Less—		
Managing Partner's Salary	£1,000	
Interest on Partner's Capital (£60,000 at 5%)	3,000	
		4,000
Amount proportionally divisible among the partners		£23,000

A	£	B	£	C	£
Interest on capital	1,000	Interest on capital	1,000	Interest on capital	1,000
Five-tenths profits	= 11,500	Three-tenths profits	= 6,900	Two-tenths profits	= 4,600
		Salary	1,000		
	12,500		8,900		5,600

£27,000

These sums of £12,500, £8,900, and £5,600 represent the amounts such partners A, B, and C respectively are for Sur-tax purposes to be considered to have derived from this business, and should be entered by them in their several returns.

SPECIAL CLAIMS AND ALLOWANCES

Setting off Losses of one Business against the Profits of Another. By Rule 13 of the Income Tax Act, it is provided that where a person carries on, either solely or in partnership, two or more distinct trades, manufactures, adventures, or concerns in the nature of trade, the profits of which are chargeable under the rules of Schedule D, he may deduct or set off against the profits gained in one or more of the said concerns the excess of the loss sustained, in any other of the said concerns, over and above the profits thereof.

Example. H. Humphrey is in partnership as a general hardware dealer, and his share of the statutory profits, as agreed with the surveyor, amounts to £1,057. He is also engaged in business as a grain merchant; from this source he sustains a loss, the statutory amount of which is agreed with the inspector at £740. In addition, he has a private income from Investments of £110 net. Make up his claim for relief under the above-mentioned Act.

RETURN OF TOTAL INCOME FROM ALL SOURCES

		£	s.	d.
Business Profit as Hardware Merchant . . .	£1,057			
Less Business Loss as Grain Merchant . . .	740	317	-	-
Private Income from Investments, gross (say)		200	-	-
Total Statutory Income		£517	-	-

Business Loss in Year of Assessment. By Section 34 of the Income Tax Act, 1918, as amended, it is provided as follows—

1. Where any person sustains a Loss in any Trade, Profession, Employment, or Vocation carried on by him either solely or in partnership, or in the Occupation of Lands for the purpose of Husbandry only, or in the occupation of woodlands in respect of which he has elected to be charged to tax under Schedule D, he may, upon giving notice in writing to the Surveyor of Taxes for the district, within one year after the year of assessment, apply to the general commissioners or to the special commissioners for an adjustment of his liability by reference to the loss and to the aggregate amount of his income for that year estimated according to this Act.

2. The commissioners shall, on proof to their satisfaction of the amount of the loss, and of the payment of tax upon the aggregate amount of income, give a Certificate authorizing repayment of so much of the sum paid for tax as would represent the tax upon income equal to the amount of loss, and the certificate may extend to give exemption, abatement, or relief, depending upon total income from all sources. Upon the receipt of the Certificate, the Commissioners of Inland Revenue shall cause repayment to be made in conformity therewith.

3. If any person shall be guilty of any fraud or contrivance in making any

application under this section, or in obtaining any such adjustment or Certificate as aforesaid, he shall forfeit the sum of Fifty Pounds.

4. Where repayment has been made to a person for any year under this section, he shall not be entitled, in computing the assessment for any subsequent year, to a deduction of any portion of the amount in respect of which such repayment has been obtained.

For example, suppose the adjusted results for four years were: (1) profit £1,800, (2) loss £1,000, (3) profit £800, (4) profit £1,200, the assessments would be—

	(a) *If Claim is made and is allowed*		(b) *If no Claim is made*
	£		£
(2) £1,800–£1,000	800	(2)	1,800
(3)	Nil	(3) (£1,000 loss carried forward)	Nil
(4)	800	(4) £800–£800 (part of loss)	Nil
(5)	1,200	(5) £1,200–£200 (balance of loss)	1,000
	£2,800		£2,800

It is assumed that tax has been paid on £1,800 and repaid on £1,000.

Repayment of tax can be claimed only to the extent of the income on which it has been paid. Thus, if the statutory loss amounts to £650, and tax has been paid only on £520, then tax can be recovered only on £520. The balance of £130 will be set against future assessments for the following five years.

Carrying Forward Losses. Instead of claiming relief by (i) setting off the loss against the profits of another business, or (ii) claiming repayment under Section 34 of the Income Tax Act, 1918, the taxpayer may (iii) elect to carry forward the loss as a set-off against the profits on which he is assessed for the six following years of assessment.[1] And where the loss is not fully covered by methods (i) and (ii) the balance may be carried forward under (iii).

New Business. (**First Year.**) The first year's assessment is based upon a proportion of the profits in the first year or accounting period.

(**Second Year.**) Where the trade, profession, or vocation has been set up and commenced within the year preceding the year of assessment, the computation shall be made on the profits or gains for one year from the period of the first setting up of the same; but the person charged shall be entitled, on giving notice in writing to the surveyor, within twelve months after the end of the year of assessment, to be charged to income tax on the amount of the profits or gains of the year of assessment.

(**Third Year.**) The assessment will now be normal, i.e. on the preceding year, but the taxpayer again has the option of being charged on "actual."

[1] Finance Act, 1926, Section 33.

The election to be so assessed must be made in respect of *both* the second and third years; and where this basis would be unfavourable to the taxpayer he may revoke any notice previously given, whereupon the assessments will follow the normal method, i.e. the second year's assessment will be based upon the profits of the first twelve months as stated at (*a*) in the preceding paragraph, and the third year's assessment will be based upon the profits of the preceding year.

Example. Business commenced 1st October, 19—. Profits for the first three accounting periods ending 30th September, £800, £600, and £1,300 respectively.

Years of Assessment	Normal Assessment		Actual Profits
	£		£
First	400	(£800 × $\frac{1}{2}$)	400
Second . . .	800	(£800 × $\frac{1}{2}$ + £600 × $\frac{1}{2}$)	700
Third	800	(£600 × $\frac{1}{2}$ + £1300 × $\frac{1}{2}$)	950

The taxpayer may elect to have the assessment for the second year reduced to the actual profits, i.e. £700. In this case the assessment for the third year will also be on the actual profits, i.e. £950. If this basis proves on the whole unfavourable to the taxpayer he may, within twelve months after the end of the third year, revoke the notice previously given, when the normal assessments will apply. (The student is warned against assuming from the above figures that the normal assessment will favour the taxpayer in this case; the whole of the circumstances including rates of tax in force for the various years, other income, "allowances" available, and liability to sur-tax will have to be carefully reviewed.)

Discontinuance of Business. The Finance Act, 1926, provides that where in any year of assessment a trade, profession or vocation is permanently discontinued the assessment shall be adjusted to the actual profits of such year commencing 6th April. Any tax overpaid may be reclaimed, but an additional assessment may be made if the actual profits exceed the assessed profits of such period. If, during the year of assessment preceding the year of discontinuance, the actual profits exceed the assessed profits of such period an additional assessment will be made, but no tax may be reclaimed if the assessed profits exceed the actual profits of such period.

Example 1. A business, whose trading year is 6th April to 5th April, is closed down at 30th September, 1947.

Actual profits	Assessment	Adjusted Assessment
1944-45—£700		
1945-46—Nil	£700	
1946-47—£500	Nil	£500
1947-48—£200	£500	£200

If the actual profits of 1945–46 had been £600 (this then constituting the assessment figure for 1946–47) tax could not be reclaimed on £100 (£600–£500).

Where the dates of the trading year do not coincide with those of the official financial year, apportionment must be made. The actual profits for the year of assessment in which discontinuance takes place, also the actual profits for the year of assessment preceding the year of discontinuance, will be the apportioned profits from the 6th of April in one year to the 5th of April in the following year (*Manson* v. *Wesley*, 1931)

Example 2. A business whose trading year is 1st January to 31st December is closed down on 28th February, 1947. Its adjusted taxable profits are as follows—

Year ended 31st December, 1943 . . .	£1,600
,, ,, 1944 . . .	1,100
,, ,, 1945 . . .	1,700
,, ,, 1946 . . .	840
Period ended 28th February, 1947 . . .	120

On what profits will this business be assessed if it makes a claim for adjustment on account of discontinuance of business?

	Ordinary Assessment		Adjusted Assessment
1944–45 .	Previous year's profits,	£1,600	—
1945–46 .	,, ,,	1,100	£1,485
1946–47 .	,, ,,	1,700	£750

The actual profits for 1946–47, the year in which discontinuance takes place, are the profits from 6th April, 1946, to 28th February, 1947, namely, nine-twelfths of £840 plus £120: that is, £630 + £120, or £750.

The actual profits for the year of assessment preceding the year of discontinuance are the profits for the fiscal year—6th April, 1945, to 5th April, 1946—made up of the trading periods 6th April, 1945, to 31st December, 1945 (nine months), and 1st January, 1946, to 5th April, 1946 (three months). The profits will, therefore, be nine-twelfths of £1,700 plus three-twelfths of £840; that is, £1,275 + £210, or £1 485.

Consequently, the assessment for 1945-46 will, by means of an additional assessment of £385, be raised to £1,485; but, on the other hand, the assessment for 1946 47 will be reduced to £750.

Change of Succession. By the Finance Acts, 1926 and 1930, when a change occurs in a partnership, by reason of retirement or death, or dissolution of the partnership as to one or more of the partners, or the admission of a new partner, within the period of assessment, the profits and gains are to be computed in the same manner as before, provided that any member of the new partnership

had a share in the business before the change took place. If, however, *all* the persons who had a share in the business before and after the change make application to the inspector of taxes within twelve months of the change, the business may be treated as a new one and the old partnership as a discontinued business. Where *no* member of the new partnership had a share in the old partnership, the business is treated as a new one.

When two or more businesses are amalgamated, the profits of the businesses will be added together, and will form the basis for ascertaining the new assessment.

When a private firm is converted into a limited company, the profits of the latter will be computed and ascertained on the basis of a new business.

REPAYMENT

Statutory Provisions. The following is a brief summary of the cases in which income tax already paid can be recovered by means of a claim for repayment—

(1) Where an individual is entitled to claim exemptions and the whole or any part of his income has been received less tax.

(2) Where earned income relief and/or personal allowance have not been granted.

(3) Where a person is liable to pay tax at a lower rate only and his income or any part of it has been received less tax at a higher rate.

(4) Where a person is entitled to an allowance (*a*) for life assurance premiums; (*b*) for children under 16 years of age.

(5) Where a lessor of plant and machinery is entitled to an allowance for wear and tear.

(6) In the case of charitable institutions, public schools, literary and scientific institutions, etc., entitled to exemption.

(7) In cases of double assessment, i.e. where a person has paid tax twice for the same year on the same income.

(8) In the case of an additional allowance in respect of maintenance of lands and buildings under Schedule A.

(9) Where a business has been set up within two years, or during the year of assessment.

(10) Where the business has been discontinued.

(11) Where a loss has been sustained.

(12) Where interest has been paid to a bank in full without deduction of tax, and such interest has not been treated or allowed as a business expense.

QUESTIONS

1. What is income tax? What persons are liable to it?
2. What is meant by taxation of income "at source"? Give examples.
3. Enumerate the schedules under which income tax is levied. What is the official year of assessment?
4. What is the mode of assessment under Schedule B? Give examples. Has the taxpayer a choice of any other method?

5. What income is taxable under Schedule E? Is it earned or investment income?

6. What is the mode of assessment under Schedule E?

7. What taxable income is comprised under Schedule D? Is it earned or investment income?

8. What is the mode of assessment under Schedule D? What is meant by "statutory" income under this schedule?

9. What is sur-tax? On whom is it levied? What are the limits of income and rates of tax respectively?

10. What is the mode of assessment for sur-tax? By whom is the assessment made?

11. How is income tax collected from the partners in a partnership? Can the partners claim to be separately assessed for the purpose of obtaining the abatements, allowances, and relief to which they may be individually entitled?

12. How are the assessable profits adjusted in order to arrive at a partner's income (*a*) for income tax, (*b*) for sur-tax?

13. What is meant by Dominion Income Tax, and what allowance may be claimed?

EXERCISE XXV

1. Give an example of an Income Tax Return (providing your own figures) showing clearly: (*a*) Allowance of tax at standard rate, (*b*) allowance at reduced rate, and (*c*) tax payable.

2. Prepare an Income Tax Return for J from the following information—

(1) J has an income of £800. (Earned income.)
(2) He is married and has four children.
(3) The children's ages are 5, 9, 17, and 18 respectively.
(4) The eldest child—a boy—is at a college with a scholarship of £100.

3. What tax will Miss Newall have to pay on her income, *all* earned, of £720, after taking into consideration the following facts: Miss Newall maintains a widowed mother who serves in the capacity of helper to three brothers who are all below 16 years of age and maintained by Miss Newall?

4. It has been the custom of a company, whose employment you enter, to charge income tax against the profits of the year in which it was paid. The company's financial year ends on 30th September, and, for example, income tax paid on 1st January, 1949, for 1948–49 is charged against the profits of the year to 30th September, 1949.

Do you consider this method correct? If so, give your reasons, but if you do not approve, suggest an alternative method which you think would be more correct.

5. The following items appear in the Profit and Loss Account of a limited company—

(i) Income tax.
(ii) Loss on sale of a motor car.
(iii) Debenture Interest.
(iv) Depreciation of Plant.
(v) Directors' Fees.
(vi) Donation to the building fund of a hospital.
(vii) Premium on Loss of Profits Policy.
(viii) Defalcation by cashier.

Would these items be allowed as deductions for income tax purposes? Give your reasons for allowance or disallowance. *(R.S.A.)*

6. The following items appear as expenses in the Profit and Loss Account of a limited company—

	£
Directors' Fees	1,000
Commissions	675
Rent	1,500
Interest on Debentures	800
Discount	371
Depreciation of Plant	419
Goodwill written off	500
Bad Debts written off	286
Bad Debts Provision	250
Subscriptions and Donations	37

State which of these items would be disallowed as an expense in computing the company's liability for income tax, explaining shortly in each case the principle underlying the disallowance *(R.S.A.)*

7. What is the "Appropriate Rate" arising out of the following?—
A has earned income of £500, and an investment income (gross) of £114. He is married with two children.

8. M has a total income of £4 108 (all earned). He is married and has one child. What will be the "appropriate rate" in this case?

9. When a trader makes his return for income tax, which items, generally appearing in a profit and loss account, would not be passed by the inspector?
Enumerate them, with any comments you think necessary in "border line" items.

10. B, J, and K are in partnership sharing profits and losses equally. The capitals of the partners are: B £5,000, J £4,000, and K £3,000. Each partner draws a salary equal to one-tenth of capital held, also 5 per cent interest is credited annually to each partner's capital.

The assessable profits were £9,000. Draw up a statement showing how the tax payable by the firm should be allocated among the partners.

11. (i) What, in your opinion, should be the basis of reserving for income tax in the accounts of a trading company? Take, as an example, the case of a company the accounts of which show—

	£
Year ended 31st December, 1948—	
Profit after charging:	
Ground-rent, £100 (gross), and Debenture Interest, £500 (gross)	3,000
Year ended 31st December, 1949—	
Profit, after debiting similar charges	1,000

If you think it necessary for the purposes of your answer, you may assume that during the year 1949 a dividend, in respect of the 1948 profits, amounting to £2,000 gross was paid, but that no dividend payment is contemplated in respect of the 1949 profits.

(ii) Do you consider there is any inequality of treatment for persons assessed under Schedule E as compared with those assessed under Schedule D, in regard to the deduction of expenses for income tax purposes. Explain the reasons for your view.

12. Robert Laws has been surcharged by the Inspector of Taxes with the under-mentioned items in reference to his assessment under Schedule D—

(*a*) 5% depreciation only, instead of the 10% claimed, has been allowed;
(*b*) Interest on loan from J. Smithers disallowed;
(*c*) Cost of removing offices to new buildings disallowed;
(*d*) Subscription to local hospital disallowed.

Has Robert Laws any right of appeal against these surcharges? If so, what course is open to him, and what chance of success has he in respect of the above items? (*R.S.A.*)

13. The undermentioned items appeared in the annual accounts of a Limited Company. State briefly how they should be treated when preparing the Company's return under Schedule D for income tax purposes—

(*a*) 5% reserve on total Sundry Debtors as a provision for Bad and Doubtful Debts.

(*b*) Interest received on deposit account with the Dresdner Bank, Old Broad Street, E.C.

(*c*) Premiums received on an issue of new shares.

(*d*) Loss by embezzlement by one of the Company's travellers. (*R.S.A.*)

14. The undermentioned items appeared in the accounts of the Pleasure Steamers Co., Ltd. How should you deal with them when preparing the Company's return under Schedule D, for Income Tax purposes?

(*a*) Profit of £1,500 realized by the sale of stock, which formed part of the Reserve Fund investments.

(*b*) £150 written off during the year, representing one-fifth of the Preliminary Expenses Account.

(*c*) Depreciation, at the rate of 6%, written off the cost price of the Company's steamers.

(*d*) 3,000 fully-paid shares of £1 each, received as part purchase price from a subsidiary company and distributed, by way of bonus, to the Pleasure Steamers Co. shareholders. (*R.S.A.*)

15. M, N & P carry on business in partnership, sharing profits and losses in the following proportions—

M, seven-fifteenths; N, five-fifteenths; P, three-fifteenths.

Their Profit and Loss Account for the past year was as follows—

	£		£
Salaries	304	Gross Profits	1,920
Trade Expenses	80		
Bad Debts	26		
Interest on Loan	25		
„ on Capital M	50		
„ on Capital N	30		
P's salary	350		
Goodwill written off	50		
Charitable Subscriptions	28		
Net Profit	977		
	£1,920		£1,920

Prepare return for Income Tax for the year ending 5th April next, showing on what amount the firm would be assessed.

16. C's total income consists of a salary of £750 and £100 from War Loan interest from which Income Tax is not deducted before receipt. He is married, has two children under 16 years of age, maintains his widowed mother, and pays a life assurance premium of £20. What tax will he pay for the current year of assessment?

17. A and B are partners whose profits adjusted for Income Tax purposes are £8,808. A takes three-quarters of the profits and B takes one quarter. A pays an annual life assurance premium of £520 on his own life, £87 on that of his wife. Both these may be assumed to be allowable. A is a married man; B is a bachelor. Show the amount of tax payable by the firm after allowing for all deductions due to each partner.

18. The following Profit and Loss Account is submitted by Herbert Pope to the Inspector of Taxes, who proceeds to disallow certain expenses charged in the account. You are required to compute the amount of the statutory profit assessable under Schedule D and to state briefly the reasons for the adjustments you make. Mention any point on which you would require further information.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 19..

		£		£
To Salaries	£650		By Gross Profit	2,060
„ Income Tax thereon	43		„ Dividends (net)	60
		693		
„ Commission		217		
„ Ground Rent (net)		75		
„ Rates and Insurance		84		
„ Income Tax on Business Premises		55		
„ Travelling Expenses— Staff	£34			
Proprietor	22			
		56		
„ General Expenses		68		
„ Bank Interest		37		
„ Life Assurance Premium		15		
„ Interest on Capital		40		
„ Net Profit		780		
		£2,120		£2,120

(*R.S.A.*)

19. What arrangements would you make to prevent fraud in the preparation of the Wages Book of a manufacturing concern and in the payment of the wages? (*C.I.S.*)

20. On 1st March, P. Pensley and R. Rubble draw on one another at three months for £250 for their mutual accommodation. They discount each other's bills at 4½ per cent, and, at maturity, each meets his own acceptance. Record the above transaction in the Ledgers of both parties.

21. Prepare, and fill in the headings of a Day Book suitable for a City Trader, which will answer the purpose of a Purchase and Sales Journal; and prepare also a form of Cash Book which you would advise being used so as to save clerk's time and labour in posting. (*London Chamber of Commerce.*)

22. You are instructed to organize the book-keeping department of a small factory. What books of account would you advise as necessary, and what rules would you lay down for the guidance of the staff and to ensure that the books are

kept accurately and well up to date? Assuming that the clerks are three in number, mention what duties you would allot to each.

(*London Chamber of Commerce.*)

23. What do you understand by the following terms? (*a*) Floating Assets; (*b*) Fixed Assets; (*c*) Preliminary Expenses, and how dealt with; (*d*) Self-balancing Ledgers; (*e*) Watering of Stock; (*f*) Allonge.

24. What is a "Cumulative Preference Share"? The A B Co., Ltd., is three years in arrear with the dividends on its 1,000 6% Cumulative Preference Shares of £1 each. Would this fact affect the annual accounts? If so, how? (*R.S.A.*)

25. Give what you consider would be a satisfactory ruling for the Cost Sheet of a manufacturer, with whose accounts you are familiar. State from what books of account the necessary information for the completion of the Cost Sheet would be obtained.

(*R.S.A.*)

26. What is the difference, if any, either in result or in method of preparation, between a Balance Sheet and a Statement of Affairs? (*London Chamber of Commerce.*)

27. The Birchets Mineral Water Co., Ltd., sends out cases of aerated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the Company's books with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10% from this value when accounting for his sales. The personal accounts of all chemists so supplied are included in the Ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance Sheet?

(*London Chamber of Commerce.*)

28. Explain the difference between: (*a*) Sinking Fund; (*b*) Reserve Fund; (*c*) Reserve Account.

(*U.L.C.I.*)

29. A Balance Sheet is presumed to be a statement of the financial position of a concern. Discuss what the "financial" position means to the following should they be attempting to gauge the "financial" position of a concern by an inspection of its Balance Sheet—

(*a*) A banker. (*c*) A debenture holder.
(*b*) A shareholder. (*d*) An auditor.

30. The following is the Trial Balance of the Chicago Branch of a London firm—

TRIAL BALANCE
31st December, 19—

	Dr. $ c.	*Cr.* $ c.
Head Office A/c—1st Jan.		32,602.00
Remittance A/c	14,000.00	
Stock, 1st Jan.	5,085.00	
Fixtures and Fittings	2,736.00	
Purchases	17,846.00	
Sales		35,806.00
Debtors	17,710.00	
Creditors		2,062.00
General Expenses	7,601.00	
Discount (balance)		418.00
Cash at Bank	5,450.00	
„ in hand	460.00	
Stock, 31st Dec., 19— = $5,025.00	70,888.00	70,888.00

The following information is given you—

Rate last 31st December, and for Fixtures	\$4.86
,, this 31st December	\$5.00
Average Rate for year	\$4.92

In the Head Office books, the Branch Account balance at the beginning of the year was £6,502 14s. 6d. The Remittance Account stands at £2,786. 6s. 11d. As Accountant to the firm, effect the necessary conversion into sterling, and make the necessary entries in the Head Office books to incorporate the above figures. Show also the accounts in the Head Office and Branch Books respectively.

31. F. Saunders files his petition. The following balances appear in his books—

Cash in hand, £40; Bank Overdraft, £200; Stock-in-Trade, £1,000 (expected to produce, £800); Machinery, £900 (expected to produce £750); Trade Fixtures, £300 (expected to realize £100); Book Debts: Good, £500; Doubtful, £220 (expected to produce £100); Bad, £120; Unsecured Creditors, £2,500; Bills Payable, £1,000; Fully-secured Creditors, £2,500 (who hold security value £3,500); Partly-secured Creditors, £3,000 (who hold security value £1,000); Liabilities on Bills Discounted expected to rank, £250; Creditors for Half-year's Rent, £120, and for Rates and Taxes (12 months), £20; Preferential Wages and Salaries, £50.

Prepare Statement of Affairs. How much in the £ does the estate show approximately?

32. Phillips & Thomas, Ltd.

BALANCES, 31st December

	£	s.	d.		£	s.	d.
Goodwill . . .	5,000	–	–	Discount allowed .	2,035	4	2
Trade Expenses . .	246	5	4	Preference Dividend to 30th June . .	240	–	–
Freehold Estate (Factory) 1st Jan. . .	5,800	–	–	Insurance . . .	76	9	8
Models . . .	150	–	–	Bank: Current A/c .	944	–	9
Rent received (House), half-year to 30th June last . . .	10	–	–	Horses, Carts, & Harness	229	10	–
Coal and Coke . .	768	4	9	Subscriptions and Donations . . .	63	4	9
Salaries . . .	942	15	3	8,000 £1 6% Preference Shares . . .	8,000	–	–
Additions to Plant during year . . .	240	–	–	Extension to Premises (Factory) . .	240	–	–
Bank Interest . *Cr.*	24	5	6	Bank Deposit Receipt, dated 30th June last at 3% . . .	500	–	–
Bad Debts . . .	189	5	3	Horse-keep and Cartage	346	5	7
Legal Expenses . .	17	9	5	Machinery and Plant, 1st Jan. . . .	2,164	–	–
Petty Cash Book .	120	6	6	Mortgage Interest to 30th June . .	80	–	–
Loan on Mortgage, 4% *Cr.*	4,000	–	–	Discount received .	842	5	4
Dwelling-house . .	400	–	–	Cash . . .	89	6	4
Sales Ledger Balances .	6,091	5	4	Bought Ledger Balances	2,481	10	3
Purchases . . .	37,960	3	7	Returns & Allowances *Dr.*	166	8	4
Rates and Taxes .	146	5	4	Wages . . .	5,878	2	7
14,000 £1 Ordinary Shares . . .	14,000	–	–	Bills Receivable . .	985	8	2
Engine and Boiler .	560	–	–	Bank Commission .	52	5	7
Stock, 1st Jan. . .	8,215	5	4	Sales . . .	51,870	5	4
Travelling Expenses .	218	4	3				
Repairs . . .	158	4	11				
Returns Outwards .	85	14	9				

The Petty Cash item, £120 6s. 6d., as per Balances, represents the following payments—

	£ s. d.	£ s. d.
Goods Bought	33 9 2	
Repairs	27 18 5	
Horse Keep	15 5 7	
Travelling	24 15 2	
Sundry Expenses	14 3 7	
		115 11 11
and the Petty Cash in hand 31st December is		4 14 7
		£120 6 6

At 31st December the Stock is: Goods, £7,346 15s. 7d.; Coal, £56.

Rates are prepaid, £15. Half-year's Rent of House, £10, is due. The Interest on Bank Deposit Receipt has accrued, but is not credited to the Company in their current Banking Account. Accounts for Extensions to Premises are owing, £200. Of the Debtors, £346 is estimated to be bad. A Bill Receivable in hand, £150, is known to be bad. Depreciation is 1% on Freehold, 10% on Engine and Boiler, 5% on Machinery and Plant, and it is decided to write off one-fourth of the Extensions Account, and to treat the Models as being worth £200. Sales Ledger balances include £300 Smith Bros., who are creditors in the Bought Ledger for £250. Assume any other necessary figures.

Provide 5% Discount on the good debts.

Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st December.

(West Riding of Yorkshire.)

33. The following balances were extracted from the books of the Stambridge Publishing Co., Ltd., as on 31st December. The nominal capital of the Company consists of 10,000 Ordinary Shares of £1 each, and 4,000 6% Preference Shares of £5 each. In addition to the publishing department, the Company has a "Supply Department" for the sale of the various goods advertised in its publications.

The publishing stock, as on 31st December, was valued at £700, and the supply stock at £4,500.

Before preparing the annual accounts, it is necessary to take the following matters into consideration—

(*a*) £500 provision for Bad and Doubtful Debts is to be made, no provision having been made in the past.

(*b*) Write off 10% depreciation on Furniture, etc., which cost originally £1,600.

(*c*) Charge 2½% on the net profits of the business as Managing Director's commission.

(*d*) Half the cost of the designs is to be borne by each department.

(*e*) Write off one-third of the General Advertising Expenses and carry forward the balance.

(*f*) It was decided to pay no dividend on the Ordinary Shares for the year ended 31st December, but to pay the Preference Dividend and to transfer £2,000 to Reserve. This latter transfer has not been made.

You are required to prepare a Publishing Trading and Profit and Loss Account, a Supply Trading and Profit and Loss Account, and a general Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

LEDGER BALANCES

	£
Copyrights Account	18,000
Directors' Fees	400
Calls in Arrear (being 10s. per share on 20 Ordinary Shares)	10
General Office Salaries	300
Engraving Blocks	150
Rent, Rates, and Taxes	400
Stationery (General Office)	80
Literary Contributions	400
Insurance	30
Goodwill	4,000
Supply Department Sales	17,000
General Advertising Expenses	6,000
Designs for Publications	1,000
General Expenses	350
Publishing Sales	5,500
Managing Director's and Secretary's Salaries	1,500
Dividend paid on Preference Shares	1,130
Furniture, Fixtures, and Fittings	940
Publishing Department—	
Carriage	140
Postage and Telegrams	30
Publishing Department—	
Advertising Expenses	150
Trade Expenses	110
Discount Account (debit balance)	10

	£
Cash at Bank	1,760
Profit and Loss Account (Credit balance, 1st Jan.)	4,120
Bank Charges	10
Paper and Printing	4,250
Subscribers (amounts received)	40
Bad Debts	20
Advertisements received	4,100
Wages and Salaries	500
Reserve Account	3,000
Cash in hand	90
Supply Department—	
Purchases	9,000
Carriage	1,200
Trade Expenses	150
Wages and Salaries	1,500
Discount Account (debit balance)	30
Postage and Telegrams	90
Travelling Expenses	60
Ordinary Share Capital	4,790
Preference Share Capital	20,000
Bills Payable	2,200
Sundry Debtors	3,220
Stock, 1st Jan.—	
Publishing Department	800
Supply Department	4,000
Sundry Creditors	1,250
Bills Receivable	190

(London Chamber of Commerce.)

34. The Pernet Manufacturing Co., Ltd., was registered with a Nominal Capital of £200,000, divided into 150,000 Ordinary Shares of £1 each and 10,000 6% Preference Shares of £5 each. Of this Capital, 65,000 Ordinary Shares had been subscribed for and allotted to the public and 20s. per share called up. The whole of the Preference Shares had been issued and fully called and paid up.

On 1st January, 1948, the Company took over the assets and liabilities of Lamia, Ltd., at their book values, which were as follows: Sundry Debtors, 16,136; Sundry Creditors, £3,862; Stock, £14,850; Machinery and Plant, 10,890; Cash, £1,986.

The purchase price was agreed at £50,000, and was satisfied by the issue of 50,000 Ordinary Shares in the Pernet Co. issued to the Lamia Co. as fully paid.

On 1st July, 1948, 200 5% Debentures of £100 each were issued at 95. In addition to the records arising out of the above particulars, the following balances were extracted from the books of the Company as on 31st December, 1948—

	£
Machinery and Plant	32,765
" " Additions during 1948	8,456
Leasehold Works	77,841

	£
Manufacturing Wages	86,968
Profit and Loss Account (debit balance 31/12/47)	7,862
Sinking Fund for Leasehold Redemption	8,850
Sundry Debtors	12,460
,, Creditors	35,503
Stock (31/12/47)	32,641
Factory Power and Light	3,642
General Expense	4,785
Purchases	76,495
Uncompleted Contracts (31/12/47)	13,844
Unpaid Calls (Ordinary Shares)	500
Returns Inwards	864
,, Outwards	3,241
Loose Tools	2,864
Machinery and Plant sold during 1948	5,641
Management Salaries	3,522
Machinery Repairs	1,267
Office Salaries	3,842
Directors' Fees	750
Office Furniture	684
Discount Account (debit balance)	174
Provision for Bad Debts (31/12/47)	500
Travellers' Salaries and Commission	6,894
Carriage on Purchases	3,641
,, on Sales	4,846
Transfer Fees	146
Sales	169,159
Cash at Bank	3,246
,, in hand	1,187
Loan from Bank	15,000
Patents	20,000

You are requested to prepare Manufacturing and Profit and Loss Accounts for the year ended 31st December, 1948, and a Balance Sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration—

(*a*) No provision has been made for the Debenture Interest due on 31st December, 1948.

(*b*) As on 31st December, 1948, the following items were due but not recorded in the books: Wages, £996; Office Salaries, £226; and Directors' Fees, £750.

(*c*) Manufacturing Wages, £541, were paid to workmen employed in making Loose Tools for the Company's use, but the required transfer had not been made.

(*d*) The Manufacturing Account is to be charged with two-thirds of General Expenses and Management Salaries.

(*e*) Provide £500 for fine under an uncompleted contract now subject to litigation.

(*f*) The following valuations were made as on 31st December, 1948; Machinery and Plant, £32,640; Loose Tools, £2,951; Office Furniture, £600; Stock, £28,740; and Uncompleted Contracts, £9,641.

(*g*) Provide 2½ per cent for Travellers' Commission outstanding on December Sales, which were £13,960.

(*h*) The Bad Debt Provision is to be made equal to 5 per cent on the Sundry Debtors.

(*London Chamber of Commerce—adapted.*)

35. The following is the Profit and Loss Account of Roberts & Co., Ltd., for the year ended 31st March, 1949—

PROFIT AND LOSS ACCOUNT

	£		£
To Advertising	1,276	By Gross Profit	7,896
,, Bank Interest and Charges	146	,, Commission Receivable	842
,, Office Expenses	51	,, Profit on Sale of War Stock	70
,, Income Tax under Schedule A on Cottages	30	,, Rent Receivable on Cottages	80
,, Income Tax under Schedule D	1,830		
,, Discounts Allowed	360		
,, Repairs to Cottages	16		
,, Bad Debts written off	60		
,, Loss by Cashier's Embezzlement	200		
,, Depreciations on—			
Lease	200		
Plant and Machinery	200		
,, Interest on Loan	50		
,, Subscription to Local Hospital	5		
,, Ground Rent	20		
,, Net Profit	4,444		
	£8,888		£8,888

Prepare Income Tax Schedule D computation for 1949–50. It was agreed that £160 should be allowed for wear and tear of plant and machinery.

SPECIMEN EXAMINATION PAPERS

THE following book-keeping tests are recommended to be worked by students in the prescribed time of three hours each—

TEST 1

1. A Limited Company has issued £20,000 6 per cent Debentures as Collateral Security for a Bank Loan of £16,000.

How should this transaction be shown in the Company's annual Accounts?

2. Blanks, Ltd., was registered without special Articles of Association, Table "A" having been adopted.

During the year ended 31st December, 19.., Sundry Shareholders had paid £500 in advance of calls. No interest on these calls in advance had been passed through the books—"because the year's trading had resulted in a loss." X and Y, two shareholders, were in arrears with their calls to the extent of £200, and 10 per cent interest on this amount had been taken credit for as interest on calls in arrear.

If you do not approve of the above treatment, how should you amend it?

3. The capital of Dicksons, Ltd., a new Company, consisted of 100,000 Shares of £1 each. The whole of this Capital was subscribed by the public and fully paid up.

The Directors of the Company instruct you to initial all the Share Certificates before presenting them for sealing.

What documents, or other information, should you require before passing these Share Certificates as correct?

4. Describe the form and uses of Bin or Locker Cards, as employed in the Stores Department of a Manufacturing Business, and state how they facilitate stocktaking.

5. Blanks, Ltd., was registered in 1912 with a Nominal Capital of £300,000, consisting of 100,000 "A" 6 per cent Preference Shares of £1 each, 100,000 "B" 7 per cent Preference Shares of £1 each, and 100,000 Ordinary Shares of £1 each. The whole of the "A" Preference Shares, 85,000 of the "B" Preference Shares, and 90,000 of the Ordinary Shares were subscribed and fully paid up. The Company had also issued 200 5 per cent Debentures of £100 each, 150 of which were subscribed and fully paid.

The Company met with trade reverses, and, as on 1st January, 1948, a reconstruction scheme was carried through. Under this scheme the "A" and "B" £1 Preference Shares were reduced to a like number of shares of 15s. each, and the Ordinary Shares of £1 each to a like number of shares of 10s. each. The amount thus rendered available was applied to writing off the debit balance of the Profit and Loss Account and to the reduction of certain assets, the balance of the amount (£15,986) being carried to a Reserve Account.

In addition to the accounts necessary to record the above particulars, the following balances were extracted from the books of the Company as on 31st December, 1948—

	£
Dividend on "A" Preference Shares (to 30th June, 1948) .	2,250
Leasehold Factory	119,517
" " Redemption Fund	6,650
5 per cent War Loan	6,650
Sundry Investments	4,000
Stock (31–12–1947)	21,872

	£
Machinery and Plant (31/12/1947) (cost £58,744)	36,440
,, ,, ,, purchased during the year	3,870
Directors' Fees	1,200
Sundry Debtors	21,480
Sundry Creditors	9,872
Bad Debts Provision (31/12/1947)	700
,, ,, written off	827
Office Salaries and Expenses	6,391
Travellers' Salaries and Expenses	5,446
Discount Account (Debit Balance)	475
Factory Wages	22,868
Interest Account and General Expenses (Factory $\frac{5}{6}$, Office $\frac{1}{6}$)	3,978
Cash in hand	1,274
Cash at Bank	8,786
Purchases	67,854
Purchases Returns	927
Sales	131,740
Sales Returns	321
Apprentices' Premiums	600
Motor Lorries	6,382
Loose Tools	1,587
Insurance (Factory $\frac{5}{6}$, Office $\frac{1}{6}$)	870
Machinery Repairs	387
Patents	20,500

You are required to prepare the Company's Manufacturing and Profit and Loss Accounts for the year ended 31st December, 1948, and a Balance Sheet as on that date.

When preparing these accounts, the following matters are to be taken into consideration—

(*a*) The Bad Debts Provision is to be made up to £1,000.

(*b*) Machinery and Plant is to be depreciated as follows: Old Balance, 15 per cent; the additions are valued at £3,500.

(*c*) "Sundry Investments" are to be revalued at their present market value, viz. £4,800.

(*d*) The Stock on hand as on 31st December, 1948, was valued at £21,741, the Motor Lorries at £5,000, and Loose Tools at £972.

(*e*) "Factory Wages Account" has been debited with £58 advanced to an injured workman at the request of the Insurance Company, pending the settlement of the claim.

(*f*) One third of the "Apprentices' Premiums" covers the years 1949 and 1950.

(*g*) £60 of the "Insurance" item covers a portion of the year 1949.

TEST II

1. McArthurs, Ltd., presented accounts to their shareholders for the year ended 31st December 19.., showing a profit for the year of £19,784, and a balance brought forward from the previous year of £3,745.

It was proposed (*a*) to carry £5,000 to the Reserve Account (making that Account £20,000); (*b*) to pay the half-year's dividend due on the 7 per cent Preference Capital (£50,000); and (*c*) to pay a dividend of 10 per cent, less tax, on the Ordinary Capital (£100,000): and (*d*) to carry forward the balance to next year.

As on 1st February, 19.., the warrants representing the above dividends had all been duly paid with the exception of those in respect of holdings of 500 and 100 Ordinary Shares, which remained unpresented.

You are required to make the entries necessary to record the above particulars as on 1st February, 19..

2. Submit the entries necessary to record a fresh issue of Ordinary Shares at a premium by an old-established company. Select your own details.

3. When preparing the accounts of a limited company you find that £5,000 has been received at various dates during the year, representing calls paid in advance by sundry shareholders. On investigation you find that the Articles empower the directors to receive such payments and to allow interest thereon at a rate not exceeding 5 per cent per annum.

The Secretary of the company informs you that no entries regarding interest have been passed through the books, as the company has made a loss for the year.

What are your views?

What entries (if any) should, in your opinion, be made?

4. In connexion with the preparation of Cost Accounts, what is meant by basing Overhead on the "Machine-hour method"?

5. Blanks, Ltd., was registered with a Nominal Capital of £450,000, divided into 50,000 5 per cent "A" Preference Shares, 200,000 7 per cent "B" Preference Shares, and 200,000 Ordinary Shares, all of £1 each. On 30th June, 1948, all the "A" Preference Shares, 100,000 of the "B" Preference Shares, and 150,000 of the Ordinary Shares had been issued and were fully paid with the exception of 60,000 of the Ordinary Shares, on which only 15s. per share had been called up. The credit balance of the Profit and Loss Account after paying the dividends, etc., sanctioned at the Ordinary General Meeting held in September, 1948, was £17,343.

The directors made the final call of 5s. per share on the partly-paid Ordinary Shares, the due date being 31st October, 1948, and the call was duly paid. In January, 1949, the following interim dividends were declared in respect of the half-year ended 31st December, 1948: (*a*) on both classes of Preference Shares at the rates to which they were respectively entitled, and (*b*) on the Ordinary Shares at the rate of 10 per cent per annum, calculated on the amounts from time to time paid up on the respective shares.

In addition to the balances arising from the entries recording the above, the following were extracted from the company's books as on 30th June, 1949—

	£
Leasehold Premises	40,000
Leasehold Redemption Fund, 30/6/1948	13,200
Policy Account for Leasehold Redemption, 30/6/1948	13,200
Premium on above policy (paid 31/3/1949)	1,200
Directors' Fees	1,500
Stock-in-Trade, 30/6/1949	103,523
Plant and Machinery, 30/6/1948 (cost, £61,000)	38,000
Sundry Debtors	84,560
Sundry Creditors	23,552
Bad Debts Provision, 30/6/1948	750
Bad Debts written off, to be charged against Provision	372
Income Tax Reserve, 30/6/1948	8,290
,, ,, ,, paid, 1/1/1949	3,342
Salaries and Commission	7,291
Discount (*Dr.* Balance)	1,175
Office and Trade Expenses	2,368
Gross Trading Profit	47,537
Cash at Bank and in hand	27,391
Goodwill	75,000

You are required to prepare the company's Profit and Loss Account for the year ended 30th June, 1949, and a Balance Sheet as on that date.

When preparing these accounts the following instructions are to be followed—

(*a*) The Plant and Machinery is to be depreciated 15 per cent.
(*b*) The Bad Debts Provision is to be made up to £500.

(c) The Policy Account for redemption of the Lease is to be debited with interest at 3 per cent per annum on the balance from time to time standing on the account.

TEST III

1. A and B are in partnership sharing profits and losses as to two-thirds and one-third respectively. No complete system of book-keeping is in operation, but the following statement is presented to you as representing the position of the firm as on 31st December, 1947—

Assets

	£	£
Freehold Property	5,200	
Furniture, Fixtures, etc.	500	
Plant and Machinery	3,950	
Stock	4,750	
Debtors	4,550	
Cash	530	
Bills Receivable	120	
		19,600
Liabilities		
Creditors	3,760	
Loan on Mortgage on Freehold Property	3,000	
		6,760
Surplus		£12,840

Your examination of the firm's records discloses the following—

(a) That A's share of the surplus was £9,200 and B's £3,040, the balance representing a loan from Mrs. A which was repaid on 30th September, 1948, with interest to date amounting to £24.

(b) That during the year ended 31st December, 1948, A had drawn on account of profits £1,000 and B £750, and that A had withdrawn, on 30th June, £500 of his capital.

(c) That on 31st December, 1948, Debtors amounted to £5,760, Stock to £6,430, Creditors to £2,980, Cash to £590, and Bills Payable to £500.

(d) That the loan on Mortgage had been reduced during the year by £1,000.

(e) That there was a minute signed by the partners agreeing to charge 5 per cent per annum on partners' capitals (but not on drawings) and to write off 10 per cent from the value of the Furniture and Fixtures and Plant and Machinery.

You are required—

(i) to prepare a statement showing the amount of profit made in the year 1948, and its division between the partners; and

(ii) to make out a Balance Sheet as on 31st December, 1948.

2. On 31st December, 1937, an English trader had debtors in France who owed him Fcs. 172,320, of which the sterling equivalent was £990. During the year to 31st December, 1938, he sold goods to debtors in France to the value of Fcs. 988,310 (of which the sterling equivalent was £5,713) and received from them Fcs. 1,076,280, converted on receipt into £6,257 The rate of exchange on 31st December, 1938, was Fcs. 175 to the £.

Prepare a Total Debtors' Account in sterling and in francs from the above information, and explain each entry in it.

3. Under the terms of an issue of Debentures of £20,000 made on 1st January, 1946, at a discount of 5 per cent, a sinking fund was to be created by setting aside out of profits an equal sum on 31st December in each year to be invested at compound interest.

Taking the annual amount to be set aside to be £1,600 and the rate of interest to be received upon the investment to be 3½ per cent per annum—

(a) Give the Sinking Fund Account and the Investment Account for the three

years to 31st December, 1948, and show how these accounts and the Debenture Account should appear in the company's Balance Sheet on 31st December, 1948.

(*b*) Explain how the various accounts will be treated when repayment of the debentures takes place. (Income Tax to be ignored.)

4. A company purchased a machine for £2,000, and paid cost of erection £100. At the date of purchase it was estimated that the machine would last fifteen years, and it was decided to create a Depreciation Fund to be invested in gilt-edged securities to provide for the replacement of the machine.

Before the expiration of the expected life it was decided to scrap the machine and to replace it with one of more modern design. The cost of scrapping the machine was £20 and the cost of purchase and erection of the new machine was £2,300. Parts of the old machine, estimated to be worth £50, were retained and the balance sold as scrap for £75. At the date of scrapping the old machine, the Depreciation Fund stood in the books at £1,650 and was represented by gilt-edged securities which had cost that amount. These investments were sold for £1,560.

You are required to write up the Ledger accounts concerned.

5. The following items are taken from the Balance Sheet of a bank—

	£
(*a*) Liability of Customers for Acceptances, Endorsements, and other Engagements as per Contra .	17,814,155
(*b*) Money at Call or Short Notice	25,386,114
(*c*) Current Deposit and other Accounts, including provision for Contingencies	290,146,317

Explain the meaning of each of the above.

6. Explain what is meant by the expressions—

(*a*) "An appropriation of profit."
(*b*) "A charge against profits."

To which of the expressions would the undermentioned apply?

(i) Directors' fees.
(ii) Debenture Interest.
(iii) Bad Debts Provision.
(iv) General Reserve.
(v) Dividends paid.

7. James Collin purchased £4,000 3½ per cent War Stock on 31st March, 1937, at 106 per cent, plus Brokerage £15. On 30th April, 1937, he sold £1,000 of the Stock for £1,050 net. A full half-year's interest (without any deduction of Income-tax) was received by Collin on 1st June, 1937. Write up the Ledger Account of James Collin, showing this investment. Balance the account as at 30th September, 1937, Collin's accounting date.

8. Describe the procedure usually adopted on a forfeiture of shares through non-payment of calls. Illustrate your answer by specimen book-keeping entries.

TEST IV

1. A and B are partners in business, keeping their books on a "single entry" system. Profits are shared equally and a Balance Sheet was drawn up as on 31st December, 1947, as follows—

		£		£
Creditors		918	Motor Vans . . .	2,300
Capital Accounts—			Fixtures and Fittings . .	660
A . . .	£8,233		Stock	7,240
B . . .	5,996		Debtors	4,119
		14,229	Cash	828
		£15,147		£15,147

As on 31st December, 1948, the floating assets, etc., were valued as follows—

Stock	£7,312
Debtors	4,361
Cash	932
Creditors	1,104

Purchases during 1948 amounted to £12,662 and sales to £17,108. Examination of the Cash Book disclosed that A's drawings during the year amounted to £900 and B's to £750, and a new Motor Van had been bought for £550.

It is agreed that as on 31st December, 1948, the Motor Vans are to be valued at £2,400 and the Fixtures and Fittings at £620. Ascertain (*a*) the gross profit, (*b*) the expenses (other than depreciation), (*c*) the net profit for the year, and (*d*) the partners' Capital Accounts at the close.

2. A trading concern divides its Sales Ledger into two sections, Town and Country, each being "self-balancing." The following were the material figures obtained from the books in connexion with the monthly balancing at the end of April, 19..—

		Town			Country		
Ledger Balances—		£	*s.*	*d.*	£	*s.*	*d.*
31st March	*Dr.*	3,175	9	8	1,942	1	6
31st March	*Cr.*	22	3	6	5	9	3
30th April	*Dr.*	3,370	10	11	1,873	19	9
30th April	*Cr.*	19	2	9	5	9	3
Sales for Month		1,933	-	9	1,408	16	3
Returns		48	5	6	53	3	2
Cash received		1,508	16	2	1,391	7	-
Discount allowed		32	3	7	21	2	10
Bad Debts written off		—			6	18	6
Bills Receivable		150	-	-	—		

Draw up the respective Adjustment Accounts and suggest any inferences which you consider may be drawn from the result.

3. The necessity to provide for depreciation of a fixed asset may arise from—

(*a*) Wear and Tear;
(*b*) Lapse of time; or
(*c*) Obsolescence.

Explain and distinguish between each of these, illustrating your reply by means of examples.

4. Name, and explain the uses of, six statistical books or registers commonly kept by limited companies. Mention in each case whether the use of the book in question is compulsory by statute or not. (At least three of the examples you select should be statutory Rulings are *not* required, but it should be clearly stated what information should appear.)

5. Z Ltd., whose head office is in London, has a factory in Paris. All sales, however, take place in England.

As on 31st March, 1939, the following Trial Balances were extracted from the books—

TRIAL BALANCE—PARIS

	francs	francs
Stocks, 31st March, 1938	1,164,870	
Purchases	3,499,632	
Wages and Salaries	1,146,825	
Manufacturing Expenses	188,820	
Creditors		1,110,006
Head Office Current Account		181,638
Remittances from Head Office (£26,700)		4,773,186
Cash at Bank and in hand	64,683	
	6,064,830	6,064,830

TRIAL BALANCE—LONDON

	£	s.	d.	£	s.	d.
Share Capital, 50,000 shares of £1				50,000	-	-
Profit and Loss Account—31/3/1938				3,172	8	-
Stocks, 31st March, 1938	13,271	-	-			
Sales				42,318	10	-
Sundry Debtors	14,376	5	-			
Shipping Charges, Insurance and Duty	5,471	10	-			
Dividend paid	2,500	-	-			
Freehold Buildings	15,000	-	-			
Plant and Machinery	8,100	-	-			
Fixtures and Fittings	1,220	-	-			
Office and Showroom Salaries and Wages	2,365	-	-			
Sundry Trade Expenses	1,736	17	-			
Paris Current Account	1,009	2	-			
Remittances to Paris	26,400	-	-			
Cash at Bank and in hand	4,160	12	-			
Directors' Fees	300	-	-			
Sundry Creditors				419	8	-
	£95,910	6	-	£95,910	6	-

Prepare the Company's Trading and Profit and Loss Account for the year ended 31st March, 1939, and Balance Sheet as on that date, having regard to the following information and instructions—

(*a*) The rate of exchange is to be taken as 180 francs to the £1.

(*b*) Stocks on 31st March, 1939, were valued as follows—

In France	1,301,427 francs
In England	£12,472 10s.

(*c*) The Plant and Machinery is to be depreciated at 10 per cent and the Fixtures and Fittings at 5 per cent.

(*d*) The difference between the two "Remittance" Accounts represents a Bill of Exchange for £300 drawn by Paris on London, discounted by the Paris Branch but not yet matured.

(*e*) Ignore income tax.

ANSWERS

EXERCISE 1

(1) (*b*) Profit on Exchange £5. (2) To find the *gross* amounts, add on $\frac{1}{8}$, $\frac{1}{7}$, $\frac{1}{4}$, $\frac{3}{37}$, $\frac{1}{19}$ and $\frac{1}{3}$ respectively. (3) Discount = £4 6s. 8d., Commission = £4 10s. (4) Bank Balance as per Pass Book, £205 15s. 5d., *plus* 3 Cheques not cleared, £391 11s. 3d. *less* 2 Cheques not presented, £142 5s. 6d. = Bank Balance as per Cash Book, £455 1s. 2d. (5) Cash Book £968 3s. 2d., *plus* £242 12s. 10d. = £1,210 16s. Deduct £92 15s. = £1,118 1s. Difference £5 3s. 7d. (8) Amount of invoice, £18 15s.; cash, £17 12s. 6d.; Discount £1 2s. 6d. (10) Commission Account. To Low; Solicitor's charges and cash. To H. Smith; Sundry assets. To H. Harris. (13) Total of T.B., £1,542 18s. 6d. (14) Total of T.B. £25,062. (15) Total of T.B. £1,650. (18) B.S. total £21,970.

EXERCISE II

	Gross Profit	*Net Profit*	*Total of B/S*	*Capital Accounts*
(1)	£19,484	£5,419 2s.	£27,372	Brown £7,215 9s.; Phillips £6,954 11s
		Trial Balance, £211, 240		
(2)	£10,310	£350 14s.	£60,891 4s.	Wolfe £23,051 7s.; Harvey £19,423 17s.
(3)	£5,873 0s. 10d.	£1,318 11s. 10d.	£36,986 1s. 10d.	Rice £20,279 1s. 3d.; Baxter £9,937 0s. 7d.
(4)	£5,750 18s. 4d.	£954 16s. 4d.	£21,431 18s. 4d.	Lewis £6,919 11s. 6d.; Smithers £5,558 6s. 10d.
(5)	£18,592	£11,057 14s.	£34,841	Rocklyn £16,110 17s.; Farmley £15,650 3s.
(6)	£1,946 7s. 5d.	£500 (loss)	£11,566 11s. 7d.	W. Price £5,334 16s. 6d.; E.Ackworth £3,271 15s
(7)	£7,042	£1,214 5s. 9d.	£26,972 16s 9d.	Perry £9,672 11s. 6d.; Ruston £7,781 14s. 3d.
(8)	£15,890	£3,753 9s.	£44,391	Kingsley £22,990 6s. Larke £11,523 3s.
(9)	£5,860	£1,329 4s.	£31,639 4s.	Ramsden £12,379 12s.; Brookes £7,267 12s.
(10)	£14,650	£8,710	£27,160	A £12,984; B £12,984 C £192
(11)	£7,610	£688	£25,692	£8,994 each partner
		Trial Balance, £61,784; Capital, £9,000 each.		
(12)	£9,010 5s. 3d.	£4,311 10s. 7d	£45,316 7s. 1d.	Oakley £10,726 11s. 8d.; Denham £9,961 11s. 8d.
(13)	£8,089 17s.	£5,979 18s. 2d.	£12,710 5s. 10d.	Shepherd £6,779 19s. 1d., Elkington £3,781 16s. 7d

(Interest on Drawings: Shepherd £10, Elkington £8 2s. 6d.)

(14) (*a*) P. & L. *Dr.* £630 10s. 6d. and £92, 13s. 4d.; (*b*) P. & L. *Dr.* £723 3s. 10d. (15) (*a*) P. & L. *Dr.* £62 15s. 10d. and *Cr.* £77 9s. 11d.; (*b*) P. & L. *Cr.* £14 14s. 1d. (16) (*a* and *b*) P. & L. *Cr.* £56 10s. 6d. (17) (*a*) P & L. *Dr.* £163 17s. 8d. and £31 8s.; (*b*) P. & L. *Dr.* £195 5s. 8d. (18) (*a*) P. & L. *Cr.* £110 16s. 6d. and £3 3s. 5d.; (*b*) P. & L. *Cr.* £113 19s. 11d. (19 (*a*) P. & L. *Cr.* £187 16s. 5d. and £4 19s. 9d.: (*b*) P. & L. *Cr.* £192 16s. 2d (20) Bad Debts Provision balance £950 11s.

	Gross Profit	*Net Profit*	*Total of B/S*	*Capital Accounts*
(21)	£3,100	£1,087 18s. 4d.	£9,045	£5,815
(22)	£6,425	£3,650	£30,670	Black £6,525; White £3,575
(24)	£4,734	£1,849 2s.	£20,410 12s.	Slander £9,748 11s.; Backbite £7,512 11s.

(25) Net Profit after adjustments £2,905 2s. 4d. (26) Publishers' profit: 1st year £190, 2nd year £90; Author's profit: 1st year, £100, 2nd year £45. (27) Gross Profit £2,004 0s. 10d.; Net Profit £466 9s. 4d.; Total of Balance Sheet £12,551 4s. 3d.;

Capital A/c £10,046 9s. 4d. (28) Rates owing £40 8s. 11d. (29) Balance £3,190. (30) £15,311 (G.P.) £8,664 11s. 6d. (N.P.) £35,950 11s. 6d. B/S total £27,864 11s. 6d. Capital Account.

EXERCISE III

(2) (*a*) P. & L. *Cr.* £57 12s. 2d., and *Dr.* £23 19s. 4d. (*b*) P. & L. *Cr.* £33 12s. 10d. (4) Suspense A/c totals £88 6s. 4d. (5) Balance Sheet totals £7,903. (6) Adjusted net profit £3,926 12s. 1d. (8) Remaining difference 10s. (9) (*a*) 33⅓%. (*b*) 50%. (*c*) and (*d*) 20%. (11) See pp. 292–3 of textbook. (12) Gross Profit £737 10s., shrinkage in weight 227 tons. (13) Gross Profit £3,235 3s., Net Profit £1,277 12s. Balance Sheet total £10,040 5s. 3d. Drawings A/cs: MacAdam £258 4s., Westrum £419 8s. (15) G.P. £11,242; N.P. £3,050 12s.; total of B/S £44,175 12s.; Capital £27,215 12s. (16) G.P. £9,600 5s 5d.; N.P. £1,550 16s. 10d.; total of B/S £30,196 11s. 11d.; Capital: Green £9,416 19s.; Richards £8,366 18s. 11d.; Everitt £6,266 18s. 11d.

(NOTES. (1) Profit, by law, divisible equally in absence of agreement to the contrary. (2) Consignment A/c balance treated as a loss.)

(18) Net result, £293 2s. 4d. more profit. (19) Gross Profit £3,824 5s. 10d., Net Profit £913 15s. 5d., Total of Balance Sheet £10,685 8s. 5d.: Capital A/cs: Pearson £6,259 3s. 7d., Macgregor £3,154 11s. 10d. (20) (*a*) £3,500, (*b*) £2,760, (*c*) £3,500, (*d*) £4,860, (*e*) £190, (*f*) no change. (21) Balance £829. (24) Z. Cobb Capital A/c £9,200. Current A/c £183; R. Cobb Capital A/c £5,000. Current A/c £614 *Dr.* (25) To Profit and Loss A/c 5s. 6d. (26) Reader, Capital A/c £3,000. Current A/c £240. Storey, Capital A/c £3,000. Current A/c, £40 *Dr.* (27) Totals £34 14s. 8d. (29) Rates prepaid £29. Profit and Loss A/c £894. (30) (*a*) Capital. (*b*) Revenue. (*c*) Revenue. (*d*) Capital.

EXERCISE IV

(1) Gross profit £31,540; net profit £6,220, Balance sheet total £267,205. (2) 1947—£596; **1948**—£1,075, less fees owing £135 = £902. (3) Net profit, Frost £1,429 16s., Snow £953 4s. Capital, Frost £10,186 16s., Snow £3,923 4s. (4) Profit £618. (5) Profit £3,208. (6) Gross profit £613, net profit £268. Balance sheet total £1,656. (10) Profit and Loss *Dr.* £254 10s. (11) Profit and Loss *Dr.* £192 13s. 4d. (12) Gross profit £6,126, net profit £3,629, Balance Sheet total £17,741. Capital A/cs £7,178 2s. 6d. and £3,592 17s. 6d. **Both Provisions** treated as new ones as all the adjustments appear to have been made. (13) £6,183 2s. (14) Difference in books £3 9s. 9d. (15) Gross profit £2,500, net profit £700. Balance Sheet total £4,917

EXERCISE V

(1) Write off £110 each year. (2) Rate 25% p.a. (approx.). (4) Amount to write off yearly = £345 12s. 9d. (5) Depreciation Fund annual instalment = £245 12s. 9d. (7) If the decrease is merely temporary, make a note on the Balance Sheet as to their present market value. If it is likely to be permanent, write off, or make a Reserve to cover it. No credit should be taken in the Profit and Loss A/c for appreciation. (8) The two Stocks should be entered in the Trading A/c in a similar manner to Stock of Goods. (13) Balance of old Machinery A/c to write off to Profit and Loss = £2,600; New Machinery A/c *Dr.* £8,850. (15) Balance of Machinery A/c; 1st method £1,747 10s.; 2nd method £1,590 10s. 4d. (22) 8% off original cost; 9·71% off diminishing annual balance. (24) Write off (1) £90 a year from original cost of each machine or (2) 20·5% (approx.) annually from diminishing value of each machine. (27) Write off $\frac{1}{20}$ of Lease each year; write off $\frac{1}{10}$ of Patents each year. (29) Cost of Consols = £1,275.

EXERCISE VI

(2) v Interest £2 13s. 4d., Bill Stamp 5s.; vi Interest £3 10s., Bill Stamp 4s.; ix Interest £26 7s. 6d. (3) (*a*) Discount £1 1s. 11d.; (*b*) Discount £1 7s.; (*c*) Discount £1 1s. 6d. (4) Debit balance of Darlowe & Walsh's account £114 1s. 7d. (5) (*a*) Bill Stamp 2s., due date 4th April. (6) 30th June: Cash £112 10s., Bad Debts £337 10s. (7) Make a Provision of £500. (8) Debit balance of A's account £3,552 10s. (9) Total of Bills Receivable Book £874 1s. 1d.; total of Bills Payable Book £1,033 14s. 10d. (10) (*a*) Interest 19s. 10d., Bill Stamp 2s.; (*b*) Interest £3 2s. 10d., Bill Stamp 3s. (12) Bankers' Discount £1 5s. 0d. (Tenor of bill taken at 3 months.) (13) Total of Trial Balance £839 3s. 11d.; Discount on J. Moulton's Account = £1 2s. 6d. (14) Ashton's Capital £23,760 7s. 8d.; total of Journal entry £47,286 9s. 2d. (16) Net profit £18 5s. 8d. (18) (*a*) Amount of Invoice £478; (*b*) *Dr.* balance £28; (*d*) 3s. (19) Interest £9 15s. (20) Balances £7 2s. 4d., £71 6s. 6d. (23) Petty Cash items

£20, £3 5s., £1 17s. 6d., £2 14s. 9d., and £1 17s. 6d. (25) Total of invoice £57; Ibbetson & Co. *Dr.* £57; Coal A/c *Cr.* £52 10s., Wagon Hire A/c *Cr.* £4 10s.; (*a*) Commission £1 2s. 9d., Interest 14s. 3d., New Bill £58 17s.; (*b*) Commission 15s. 6d., Interest 6s. 6d., New Bill £39 19s. (26) Gross Profit, Factory £3,725, Shop £3,000; Net Profit £3,966, Balance Sheet total £15,073; Capital A/c: Walters £7,942, Smith £4,391. (27) Gross Profit, £9,537; Net Profit £6,276 12s. 6d.; Balance Sheet total £25,423; Capital—Wilson, £9,929 11s. 3d., Bookman, £7,530 8s. 9d. (28) Total of Invoice £512 10s., Ricksmith, Pigg & Co. *Dr.* £512 10s.; Screening A/c *Dr.* £25; Coal A/c *Cr.* £375; Wagon Hire A/c *Cr.* £37 10s.; Carriage A/c *Cr.* £125. (30) No; because of the very unequal charge against profits in respect of the same asset, viz. £90 p.a. in the earlier years and £220 p.a. in the later years. As £90 p.a. with interest is sufficient to raise the capital sum, Profit and Loss should not be debited with any more; the payments to the Insurance Co. should be posted to the debit of a Policy A/c to be treated as explained in the textbook. The £2,400 should be utilized to provide £80 a year for 30 years towards the £220.

EXERCISE VII

(1) Net Profit £149. (2) A/c Sales £1,729 8s. 6d.; Net Profit £710 9s. 6d. (3) Net Profit £88. (4) Profit on Venture £268 11s. 6d.; Amount due to Tohm £579 4s. 10d.; Amount due to Friedley £387 11s. 3d.; Cash balance £966 16s. 1d. (5) Net Profit £162 12s. 4d. (6) Profit on Venture £1,960. (7) Net profit £15,406 13s. 4d. Dividend of £240 14s. 7d. per share. (8) Net profit £3,248 4s. 4d. (9) Net profit £8,697 10s. 10d.; Dividend £142 18s. 11d. per share. (10) Profit £530 11s. 2d. (11) Revenue A/c *Cr.* balance £26,217 7s. 9d.; Net Revenue A/c *Cr.* balance £23,661 3s. 10d.; Balance Sheet £198,167 8s. 11d. (12) Hansard Estate A/c *Dr.* side (8 items) £4,139 0s. 10d.; *Cr.* side (2 items) £1,355 18s. 3d.; Shirley's A/c *Dr.* £950 15s. (13) Net Profit £500; Total of Balance Sheet £26,500; Capital A/cs: James £2,050, Edwards £4,100, Morrison £8,200, Peters £6,150. (14) Profit on consignment £125 15s. (15) Profit on Consignment £39 15s. 5d. (16) Net Profit £134 3s. 4d. (17) Loss on Joint A/c £10 7s. 3d. (18) Cash Balance £480. (19) Profit on Consignment £365; L.R owes J. M. £615. (20) Duty £212 16s. 2d., commission £44 0s. 6d., sight draft £325 16s. 5d. (22) Profit on Exports £1,190, on Wool £3,850; Loss on Consignments £1,050. Interest on Loans to be debited to the Wool and Consignment A/cs; Net Profit £1,190; Total of Balance Sheet £11,396 14s. 10d.; Capital A/c £1,896 14s. 10d. (23) 2s. a load. (24) (*a*) Discount £1 14s., Commission £1 14s.; (*b*) New bill £173 7s. 4d., Discount £1 17s. 1d., Commission £1 17s. 1d. (25) Net proceeds £1,076 17s. 6d. (26) New bill £578 17s. 2d. (27) Total of Account Sales £254 17s. 1d. (28) Sight draft £738 11s. 5d. (29) Net profit £155 12s. 5d. (30) Profit on venture £143 9s. 6d., Day owes Robson £748 19s. 4d.

EXERCISE VIII

(1) Balance of Interest *Cr.* 16s. 8d.; by days 15s. 7d.; Balance of A/c *Cr.* 16s. 8d. or 15s. 7d. (2) Balance of Interest *Dr.* £11 10s. 6d., Balance of A/c *Dr.* £361 10s. 6d. (3) by *Months*, Balance of Interest *Dr.* £1 5s., Balance of A/c *Dr.* £21 5s.; by *Days*, Balance of Interest *Dr.* £1 4s. 4d., Balance of A/c *Dr.* £21 4s. 4d. (4) Balance of Interest *Dr.* 13s. 2d.; Balance of A/c *Dr.* £22 13s. 5d. (5) Balance of Interest *Cr.* 2s. 11d., Balance of A/c *Dr.* £95 10s. 11d. (6) Balance of Interest *Cr.* £3 4s. 2d., Balance of A/c *Cr.* £178 0s. 4d. (7) Balance of Interest *Dr.* 15s., Cheque in settlement *Dr.* £255 19s. 9d. (8) Balance of Interest *Dr.* £1 3s. 8d., Balance of A/c *Cr* £93 0s. 4d. (9) Balance of Interest *Dr.* £3 12s. 1d., Balance of A/c *Dr.* £146 14s. (10) Balance of Interest *Dr.* 13s. 5d., Balance of A/c *Cr.* £172 4s. 11d. (11) Interest *Dr.* £9 13s. 7d., Total of A/c *Dr.* £399 13s. 7d. (12) Balance of Interest *Dr.* £1 6s. 4d., Balance of A/c *Dr.* £36 5s. 10d. (13) Balance of Interest *Cr.* £8 14s. 11d., Balance of A/c *Dr.* £188 13s. 11d. (14) 27th July. (15) 11th July. (16) 20th Sept. (17) 22nd Oct. (18) Interest *Dr.* £7 0s. 7d., Total of A/c *Dr.* £304 0s. 7d. (19) Elliott must pay Pine £150 12s. 11d. on 1st Nov. (20) Balance of Interest *Cr.* £61 12s. 8d., Final Payment *Dr.* £1,811 12s. 8d. (21) Profit on Consignment £131 9s. 4d.; Bailey & Co.'s A/c *Dr.* £545 12s. 8d. (22) Net Loss £124 4s. (23) Proceeds of Consignment in our books = £812 18s. 2d. (£750 2s. 9d. + £62 15s. 5d). (24) A/c Sales total Rs. 5,680 = £437 16s. 8d. (12 pies = 1 anna, 16 annas = 1 rupee); Net Profit = £48 4s. 2d. (25) Consignment A/c (total) *Dr.* to each of the items mentioned. (26) In Johnson's books, Loss on Consignment = £5 8s. 11d. (27) Net Loss on Consignment £53 2s. 1d. (28) Profit £68 5s., C's share £22 15s.; D's share £45 10s. (29) Profit on Joint A/c £586. (30) Net Profit on Joint A/c £27 2s. 3d.

EXERCISE IX

(4) Balance £13,740. (7) Sales Ledger Trial Balance £459 3s. 4d. (8) Balance £38,702 6s. 9d. (9) Total of Bought Ledger Trial Balance £741 19s. 10d. (10) Total of Bought Ledger Trial Balance £1,153 19s. 7d. (11) Total of Sales Ledger Trial Balance £725 1s. 6d. (12) Total of Sales Ledger Trial Balance £1,167 17s. 10d. (13) Bought Ledger Trial Balance £1,479; Sales Ledger Trial Balance £2,223; General Ledger Trial Balance £11,735; Gross Profit £1,019; Net Profit £346 7s. 6d.; Balance Sheet £9,863 10s.; Capital A/cs: Graham £4,129 15s., Winder £4,129 15s. (14) Trial Balance totals: Bought Ledger £1,552 15s. 3d., Sales Ledger £1,269 18s. 1d.; General Ledger £7,804 19s. 8d. (15) Trial Balance totals: Bought Ledger £614 10s. 4d., Sales Ledger £831 13s. 1d.; General Ledger £6,355 4s. (16) Trial Balance totals: Bought Ledger £2,458 1s. 4d.; Sales Ledger £3,326 12s. 4d.; General Ledger, £25,420 16s. (17) Profit £164 18s. 3d. to each partner. (18) Lease A/c balance £12,820; Motor Car A/c balance £300. (19) Balance of Sales Ledger Adjustment A/c £2,582. (20) Total loss £3,100. (23) Amount of Invoice £344 10s.; Discount £2 3s. 1d.; Commission £1 14s. 5d.; Cash £172 5s.; Bill Receivable £176 2s. 6d. (25) Gross Profit £65,180; Net Profit £49,480. (26) Discount £1 2s. 2d. (27) Total of Balance Sheet £10,386. (28) Interest balance *Dr.* 5s. 7d.; Balance of Account *Cr.* £87 14s. 5d. (29) £1,790 on 14th June. (30) Gross Profit £8,799; Net Profit £1,748 10s.; Balance Sheet total £48,261 18s.: Capital A/cs: Walters £20 791 13s., Dove £17,777 5s.

EXERCISE X

(2) Surplus of Income over Expenditure £298; Balance Sheet total £1,315 10s. (Cash in hand £315 10s.; Capital A/c £1,298). (3) Surplus of Income over Expenditure £130. (4) Surplus of Revenue A/c £334 15s; Balance Sheet total £1,717 15s.; Capital A/c £650 7s. 6d. (5) Surplus of Income and Expenditure A/c £545 12s. 9d.; B/S total £97,089 7s. 7d.; Capital A/c £88,573 16s. (6) Revenue A/c *Cr.* balance £6,247 11s. 4d.; Net Revenue *Cr.* £3,397 11s. 4d.; B/S £55,231 7s. 6d. (7) Income and Expenditure A/c Deficit £43 13s. 6d.; B/S £7,437 3s.; Capital A/c £6,437 3s. (8) Additional charge to Bad Debts A/c £110 18s (9) Surplus £574 12s. 6d.; B/S £4,728 7s. 2d. (10) Surplus £230 18s. 7d.; B/S £1,963 17s. 4d.; Capital A/c £1,488 14s. (11) (*a*) Heading should be Income and Expenditure A/c; (*b*) Income and Expenditure on wrong sides; (*c*) Furniture should be capitalized, only depreciation charged as expenditure; (*d*) Stocks of Stationery, Provisions Clothing, etc., on hand should be deducted; (*e*) Sundry profits and Interest should be more fully explained; (*f*) Loss should be *last* item on *credit* side; (*g*) Extraordinary expenditure should be spread over 3 to 5 years; (*h*) Account would in latter case show a surplus; (*i*) If Band Expenses includes cost of instruments, the latter should be treated as an asset. (12) Surplus £210 9s. 5d. (13) Balance of Cash in hand and at Bank £273 5s. 5d. (14) Balance £221 0s. 4d. (15) Bill for £11 137 10s. must be drawn payable 12th August. (19) Amount of Invoice £61 13s. 4d.; Commission 12s. 4d.; Discount 15s. 5d.; Bill £63 1s. 1d. (20) Balance of Adjustment A/c £6,870. (22) £2,685 on 14th June. (23) Discount £1 8s. 2d. (to be borne half each). (24) Balance of Interest £19 16s. 8d.; Lanng's Remittance in settlement £726 7s. 10d. (25) Gross Profit £14,181 10s.; Net Profit £3,780 11s. 7d.; Total of Balance Sheet £30,159 7s. 7d.; Capital A/cs; Skinner £12,828 17s. 10d., Fuller £12,932 15s. 4d. (29) Balance of Interest *Dr.* £2 6s. 10d.: Balance of Account *Dr.* £456 10s. 2d. (30) Amount of sight draft £730

EXERCISE XI

(3) Gross Profit: Linoleum Dept. £6,825 2s. 4d., Carpet Dept. £3,368 6s. 7d.; Net Profit: Linoleum Dept. £2,974 19s. 8d. Carpet Dept. £1,443 5s. 3d.; if decimalized, proportions of expenses are 3 and 6 = $\frac{3}{9}$ and $\frac{6}{9}$ or $\frac{2}{3}$ and $\frac{1}{3}$; inspection of figures in £ s. d. shows at once, however, that the departmental turnovers are two-thirds and one-third of the total Sales respectively. (4) A Dept.: Gross Profit £18,256 16s. 1d., Net £7,436 3s. 3d.; B Dept.; Gross Profit £11,819 9s. 1d., Net £6,485 19s. 1d.; Percentages of Gross Profit on Turnover: A Dept. 22·52, B Dept. 25·19; Percentages of Net Profit on Turnover: A Dept. 9·17, B Dept. 13·82. (5) Departmental Profits: No. 1 £151 11s. 8d., No. 2 £173 3s. 1d., No. 3 £195 4s. 7d., No. 4 £221 8s. 5d., No. 5 £256 19s. 11d.; Net Profit £902 2s. 8d; B/S £6,399 12s. 6d.; Capital A/cs £2,124 3s. 10d. each. (6) A Dept.: Gross Profit £26,080 3s. 11d., Net £10,931 9s. 8d.; B Dept.: Gross Profit £15,660 12s. 2d., Net £5,561 9s. 6d. (7) Hair Cream: Gross Profit £4,621 18s. 6d., Net £3,582 11s. 9d.; Tooth Powder: Gross Profit £9,730 4s. 3d., Net £2,898 8s. 10d. (8) Gross Profits: Motor Cars £3,225, Accessories £858 6s. 7d., Repairs £89 16s. 2d., Hire Cars £144 3s. 4d.:

Net Profit £3,324 1s. 4d. (9) No. 1 Dept.: Gross Profit £44,829 5s., Net £15,763 11s. 8d.; No. 2 Dept.: Gross Profit £22,831 5s. 10d., Net £8,222 2s. 8d.; Net Profit £17,983 12s. 6d.; B/S £156,911 8s.; Capital A/cs: Smith £55,534 4s. 8d., Brown £41,202 17s., Johnson £35,710 12s 10d. (10) Departmental Profits: A £258 3s. 8d., B £359 6s., C £352 4s. 10d., D £253 11s. 10d., E £268 5s. 4d.; Net Profit £1,316 11s. 8d.; B/S £10,888 1s. 2d.; Capital A/cs £3,745 15s. 10d. each. (11) X Dept.: Gross Profit £54,201 5s., Net £15,025 7s.; Y Dept.: Gross Profit £33,495 14s. 6d., Net £7,378 9s. 2d. (12) Fish paste: Gross Profit £11,676 13s. 8d., Net £2,023 12s. 4d.; Sauce: Gross Profit £4,906 9s. 6d., Net £3,229 4s. 6d. (13) Gross Profits: Motor Cars £4,500, Accessories £1,470 17s. 8d, Repairs £150 9s. 8d., Hire Cars £100 6s. 2d.; Net Profit £4,395 13s. 4d. (14) Pledged Goods: Gross Profit £1,190 11s. 3d.; Goods for Re-sale: Gross Profit £520 9s. 10d.; Net Profit £626 10s. 3d.; B/S £7,966 19s. 11d., Capital A/c £7,627 6s. 5d. (15) Gross Profits: Engine Dept. £2,529 12s. 5d., Repairs Dept. £2,109 5s. 9d.; Net Profit £2,942 2s. 10d. (16) Works Dept.: Gross Trading Profit £4,663 17s. 10d., Net £2,849 14s. 3d.; Retail Dept.: Gross Trading Profit £6,835 2s. 1d., Net £4,808 2s. 4d.: Net Profit £7,451 3s. 7d. (22) Net Profit £159. (23) Gross Profit £4,072 0s. 1d.; Profit before charging Interest on Capital £1,778 13s. 3d.; Net Profit £1,208 15s. 2d.; Merryweather's Bonus £213 6s. 1d.; Total of Balance Sheet £21,746 6s. 7d.; Capital A/cs: Mildred £9,083 4s. 4d., Merryweather £6,025 13s. 2d. (24) Materials Consumed 56·37%; Wages 23·72%; Gross Profit 21·32%; Net Expenses 12·30%; Net Profit 6·33%; Net Turnover = £19,101 3s. (26) Interest £1 5s.; new bill £101 5s.; due date 21st April. (27) Balance £30 17s (28) £401 17s. 6d., £413 10s. (29) £2,630 12s. Difference £10.

EXERCISE XII

(2) Balance of Drawings A/c transferred to credit of Capital A/c £177 1s. 8d. (3) Total of Balance Sheet £8,020; Capital A/cs: A £2,760, B £2,760, C £1,000. (4) Partners' proportions of profit: Dickson $\frac{28}{59}$, Bell $\frac{21}{59}$, Peters $\frac{10}{59}$. (5) Gross Profit £6,425; Net Profit £3,650; Balance Sheet total £30,670; Capital A/cs: Black £6,525, White £3,575. (6) Gross Profit £11,306; Net Loss £5,620; B/S £85,810; Capital A/cs: Lion £55,310, Unicorn £26,640 (7) Gross Profit £2,748; Net Profit £1,023 5s.; B/S £6,217; Capital A/cs: James, £3,256 7s. 4d., Jones £2,112 12s. 8d. (8) Debit Capital A/cs and credit P. & L. Adjustment A/c with incorrect shares of profit; debit P. & L. Adjustment A/c with Interest on Capital £220 and credit partners' Capital A/cs (£110, £90, and £20); divide balance of P. & L. Adjustment A/c between partners, viz. X £690, Y £345, Z £345. (9) Total of Balance Sheet £17,534 16s. 10d. (10) Cash Book *Dr.* £1,500. (11) Cash Book *Dr.* £2,300, *Cr.* £300. (12) Total of Balance Sheet £14,479; Capital A/cs: Dean £5,376, Gibson £5,376 Fir £2,150. (13) Goodwill on Purchase Price = £4,460; after adjustments = £4,868 (4460 + 200 + 200 + 8), total of Balance Sheet £31,218. (14) Balance due to P. Crew's representatives £7,955 16s. (15) Sixth year, last instalment £80 2s. 10d. (16) Final payment £701 1s. (17) Net Loss £1,295; Capital A/cs: Rostron £2,281 10s., Teale £178 10s. (18) (*a*) Net Profit £1,758 15s.; Capital A/cs: Austin £7,316 5s., Bell £4,877 10s., Cooper £4,877 10s.; (*b*) Peters must bring in £2,438 15s. for one-eighth share. (19) A and B each pay in £3,500. B pays A separately the amount for Goodwill. (20) Capital A/cs: Mason, £27,430, Box £5,962 10s. (21) A will receive £1,260, B £708 15s., C £551 5s. (22) (*a*) £2,572 10s.; (*b*) £4,590. (23) Goodwill A/c: 1st payment £349 15s., 2nd £407 17s. 3d., 3rd £441 7s. 7d., 4th £562 16s. 6d., 5th £238 3s. 8d. (24) Cox will receive £800, Mason £600, Holding £360. (25) By the Partnership Act, partners are not entitled to Interest on Capital before ascertainment of profits but are entitled to 5 per cent Interest on Advances; they are also equal partners if there is no agreement to the contrary; Carus's Interest on Loan (10 months) = £41 13s. 4d.; Net Profit £2,718 6s. 8d., half to each partner. (26) Net Profit £1662; Capital A/cs: Hart £3,545 13s. 4d., Capper £2,816 13s. 4d., Bonar £2,047 13s. 4d. (27) Net Credit to Flynn £599; Debit Bartle $\frac{3}{5}$ = £359 8s.; Debit West $\frac{2}{5}$ = £239 12s. (28) Brown' Capital £2,000, eldest son's Capital £4,000, four children each £1,000 Capital. (29) (*a*) Credit M and N with equal shares of Goodwill, and (*b*) allow, say, 5 per cent per annum on the Partners' capital. (30) Total of Balance Sheet £9,000, Capitals: A £3,000, B £2,000 C £1 000.

EXERCISE XIII

(1) Profit on Realization £373; Black £3,236 10s., White £1,146 10s. (2) Loss on Realization £750; Black receives £2,525, White £825. (3) White receives £5,625; Black's Capital A/c *Cr.* £3,275 Goodwill A/c *Dr.* £1,800. (4) (*a*) Robinson £3,120, Larkin £2,760, Sparrow £2,150; (*b*) Robinson £3,195, Larkin £2,820, Sparrow £2,195;

(c) Robinson £2,079 6s. 8d., Larkin £1,719 6s. 8d., Sparrow £1,109 6s. 8d. (5) Loss on Realization £3,020; Hawker £1,284, Haigh £196 balance of Loan A/c. (6) Loss on Realization £635; Rogers £8,119, Hawley £5,246. (7) Creditors £6,230, Loan £650, Linton £3,860, Price £3,088, Westerby £2,316. (8) Wood £4,768, Harrison £3,326, Batty £2,384. (9) Capital A/cs: Partridge *Cr.* £2,380, Paterson *Dr.* £360. (10) Creditors £4,520, Loan £1,500, Finchley £5,710, Williams £1,930. (11) *Garner* v. *Murray* ruling must be applied. Solvent partners will bear balance of Z's deficiency in proportion to their last agreed Capitals, viz. X $\frac{6}{11}$ of £330, and Y $\frac{5}{11}$ of £330. Profit on Realization £520. X receives £6,080, Y £5,006. (12) Loss on Realization £1,140: X and Y bear Z's deficiency £450, $\frac{3}{5}$ and $\frac{2}{5}$ respectively; X receives £5,760 and Y £3,840. (13) Profit on Realization £1,500; Loss occasioned by the insolvent partner's default, £250, is borne $\frac{5}{9}$ by A and $\frac{4}{9}$ by B; A receives £5,611 2s. 3d., B receives £4,388 17s. 9d. (14) Hawker receives £1,400, and thus bears the whole of the loss caused by Temple's default; which shows the injustice of the *Garner* v. *Murray* ruling in extreme cases. (15) (a) They must pay their deficits, and Hawkins will receive £1,500; (b) Hawkins will receive £1,000, and whatever sums he can obtain from Templar and Joyce; (c) Hawkins will receive £1,000, and bear the whole of the loss caused by the insolvent partners' default. (16) Loss on Realization £900; loss caused by Robinson's default, £433 6s. 8d. (£500 + £150 *less* Cash £216 13s. 4d.), is borne $\frac{25}{40}$ by Brown and $\frac{15}{40}$ by Jones; Brown receives £2,500 and £279 3s. 4d., and Jones receives £1,500 and £37 10s. (17) Creditors receive a dividend of 15s. 4d. in the £ on £12,000. (18) Profit on Realization £576; Wyatt receives £6,288, Dawson receives £4,288. (19) Credit each partner's Capital A/c with his proper interest, and debit the Capital A/cs with the total (£1,200) in the same proportion as they share profits. (20) X $\frac{1}{2}$, Y $\frac{5}{16}$, Z $\frac{3}{16}$ (21) Gross profit £3,521; net profit £597 2s. 11d.; B/S total £13,648 16s. 11d.; Capita A/cs: Farmer £4,788 15s. 3d., Right £3,887 6s. 8d.; Percentages of profit on turnover: Gross 38·07, net 6·45. (22) Gross profit £12,368 16s. 2d., net profit £3,116 2s. 11d.; B/S total £47,172 8s.; Capital: Smith £17,189 17s. 4d., Thompson £14,228 12s. 11d. (23) Loss on realization £2,374; Dividend 12s. 8$\frac{3}{4}$d. in £. (24) A £5,250 (gain), B £300 (gain), C £150 (loss). (25) Expenses £1,869; Net Profit £1,639; X £230, Y £74. (26) Net profit £1,080 11s. 3d.; Capital: Fisher £3,851 8s. 9d., Green £3,851 8s. 9d., Gray, *Dr.* £251 17s. 6d. (27) Net profit £1,314; Capital: Cowan £6,879 10s., Bennett, £6,740 10s. (28) Aplin, $\frac{12}{25}$, Charles $\frac{8}{25}$, Paton $\frac{1}{5}$. (29) C. B. *Dr.* £1,800, *Cr.* £240. (30) C.B. *Dr.* £1,800.

EXERCISE XIV

(2) Net Profit £735 5s. 1d. (3) Gross Profit £1,704 15s. 2d.; Net Profit £1,066 7s. 8d. (4) Gross Profit £2,037 10s. 10d.; Net Profit £1,220 7s. 5d. (5) Branch A: Gross Profit £2,402 6s. 6d.; Net Profit £1,797 8s. 3d.; Branch B: Gross Profit £2,518 5s. 11d., Net Profit £1,727 4s. 7d. (6) Value of Stock £2,687 15s. (7) Liverpool Branch: Gross Profit £11,550 13s. 10d.; Net Profit £3,423 1s. 3d.; Reading Branch: Gross Profit £9,456 10s. 8d.; Net Profit £2,302 4s. 1d.; Total of Net Profit £3,381 13s. 10d.; Total of Balance Sheet £51,413 0s. 9d. (8) Total of Balance Sheet £15,474 14s. 11d. (9) Gross Profit £1,496 16s. 10d.; Net Profit £766 18s. 10d.; Total of Balance Sheet £2,078 7s. 10d. (10) Gross Profits: London £13,576 3s. 4d., Edinburgh £8,586 19s. 3d., Dublin £8,084 10s. 1d.; Net Profits: London £9,132 2s. 11d., Edinburgh £5,132 10s. 2d., Dublin £5,481 12s. 10d.; Total Net Profit £19,746 5s. 11d.: Finch £9,198 8s. 8d., Green £5,915 9s. 11d., Roberts £4,632 7s. 4d.; Total of Balance Sheet £76,143 3s. 4d. (11) Gross Profit £1,804, Net Profit £1,033, Debtors at close £1,210. (12) Total Net Profit £22,200; A £5,600, B £5,600, C £6,100, D £4,900; Total of Balance Sheet £80,200. (13) Net Profit £366. (16) Net Profits: K £290, P £324, Q £436. (17) Gross Profits: Head Office £32,974 13s. 11d., Branch A £16,143 6s. 5d., Branch B £6,583 14s. 7d.; Net Profits: Head Office £26,739 16s. 9d.; Branch A £11,609 2s. 9d.; Branch B £3,261 4s. 1d., Approp. A/c £28,784 5s. 8d.; Total of Balance Sheet £131,120 17s. 5d. (18) Factory A/c: Manufacturing Loss £837 11s. 8d., Net Loss £3,354 18s. 5d.; Gross Profits: Branch A £26,819 19s. 7d., Branch B £10,052 2s. 2d.; Net Profits: Branch A £18,937 5s. 4d., Branch B £3,604 3s.; Total of Balance Sheet £148,703 17s. 8d. (19) Gross Profits: Northern Branch £3,943 15s. 10d.; Southern Branch £2,646 12s. 6d. Net Profits: Northern Branch £1,775 13s.; Southern Branch £1,299 1s. 2d. The 2$\frac{1}{2}$% Allowance has been taken off the Purchases and Sales respectively. Total Net Profit £1,324 11s. 3d.; Total of Balance Sheet £26,893 3s. 11d. (20) Balance of Factory Current A/c *Dr.* £13,000. (22) Net Profit £1,000.

EXERCISE XV (A)

Exercises 1 to 9 are on Statistical Books, and should follow the models shown in the text.

(10) Gross Profit £3,400: A Dept. $\frac{20}{67}$ or £1,014 18s. 6d.; B Dept. $\frac{18}{67}$ or £913 8s. 8d.; C Dept. $\frac{19}{67}$ or £964 3s. 7d.; D Dept. $\frac{10}{67}$ or £507 9s. 3d.; Proportions of Expenses (£258); A Dept. $\frac{20}{67}$ or £77 0s. 4d.; B Dept. $\frac{18}{67}$ or £69 6s. 3d.; C Dept. $\frac{19}{67}$ or £73 3s. 3d.; D Dept. $\frac{10}{67}$ or £38 10s. 2d.; Net Profit £1,761: A Dept. £569 18s. 2d.; B Dept. £540 2s. 5d.; C Dept. £477 0s. 4d.; D Dept. £173 19s. 1d. (12) Banker's Discount £9; Interest £5. (13) Venture No. 1: H 40% of £1,000; G and J $\frac{4}{7}$ and $\frac{3}{7}$ of balance; Venture No. 2: H 45% of £500; G and J $\frac{4}{7}$ and $\frac{3}{7}$ of balance; Current A/cs: G *Cr.* £985 14s. 4d.; H *Cr.* £775; J *Cr.* £739 5s. 8d. (15) £1,475 each; £1,225 each. (17) Income and Expenditure Account balance £98 Balance Sheet total £1,329.

EXERCISE XV (B)

(1) Balance Sheet total £280,000. (2) B/S £309,000. (3) B/S £80,000. (4) B/S £200,000. (5) B/S £225,000. (6) B/S £80,000. (7) B/S £88,000 (8) B/S £80,000. (9) Cash received on allotment £48,125; Cash balance £75,000. (10) B/S £100,037 10s. (11) Application A/c £50,000 including £25,000 Premium; Allotment A/c £75,000. (12) O.S. Capital £20,000 *less* Calls in Arrear £3,800 = £16,200; P.S. Capital £22,000 *less* Calls in Arrear £3,500 = £18,500; Cash balance £34,700. (13) B/S £41,958. (15) Gross Profit £6,225; Net Profit £2,956; Approp. A/c £1,956; B/S £28,518; Unpaid or Unclaimed Dividends are a liability and appear on Balance Sheet only—not in Profit and Loss A/c or Approp. A/c

	Gross Profit			*Net Profit*			*Approp. A/c Balance*			*Bal. Sheet total*		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
(16)	5,171	-	-	3,012	-	-	—			7,800	-	-
(17)	36,150	-	-	18,261	10	-	14,685	7	-	136,261	10	-
(18)	3,344	3	3	1,928	11	10	2,115	19	-	12,060	4	1
(19)	7,978	-	-	872	-	-	—			85,631	-	-

(Cost of Issue of Debentures shown on Assets side of Balance Sheet.)

(20)	11,582	-	-	2,843	-	-	4,891	-	-	52,414	-	-
(21)	11,366	-	-	5,507	-	-	4,007	-	-	61,240	-	-
(22)	5,850	9	-	1,210	10	-	715	-	-	43,321	10	-

(24) Amount of Bill £354 11s. 6d.; Interest £4 7s. 6d.; Bill Stamp 4s.; Discount on Bill £1 15s. 6d. (25) Profit on part sold £61 5s.; Value of Stock on hand £132 10s. (26) Capital A/cs: Lone *Cr.* £3,360; Stanley *Cr.* £2,640; Maxwell *Cr.* £1,270.

EXERCISE XV (C)

(2) Balance c/f £2,100; Income Tax A/c *Cr.* £1,950. (3) G.P. £13,683; N.P. £3,225; B/S total £56,101. (4) G.P. £8,509; N.P. £4,053 17s.; B/S total £54,010 17s. (5) G.P. £11,191 19s. 5d.; N.P. £2,658 12s. 1d.; B/S total £114,471 0s. 5d. (8) Loss on realization £600; Net Profit £9,900; Cash Paid Out: Brier £10,590; Oke, £2,710. (11) G.P. £18,562; N.P. £9,000 2s. 6d.; Appropriation A/c balance £5,890 2s. 6d.; B/S total £127,470 2s. 6d. (12) Amount due to P = £1,008 6s. 8d. on Current A/c and £6,554 3s. 4d. on Capital A/c; total £7,562 10s. (13) A's Capital £4,480; B's £3,000. (14) Goodwill £11,000. (16) Gross Profit £10,900; Net Profit £7,066 15s.; Approp. A/c £5,969 17s. 6d.; total of Balance Sheet £58,519 16s. 10d. (17) Net Profit £3,220 19s.; Approp. A/c £2,930 14s. 10d.; total of Balance Sheet £59,492 1s. 11d. (18) Manager's Commission 5% on £1,158 3s. 10d.: Net Profit £1,084 7s. 2d.; Total of Balance Sheet £27,516 18s. 3d.

EXERCISE XV (D)

	Gross Profit £ s. d.	Net Profit £ s. d.	Approp. A/c Balance £ s. d.	Bal. Sheet total £ s. d.
(1)	18,188 - -	7,328 - -		
	£117,214 19s. 9d		—	89,133 - -
(2)	16,515 - 8	3,048 18 5	1,600 9 8	79,319 10 5

(Three months' Pref. Div. due = $\frac{1}{4}$ of £1,500 = £375; Patents have 12 more years to run, write off $\frac{1}{12}$)

	Gross Profit £ s. d.	Net Profit £ s. d.	Approp. A/c Balance £ s. d.	Bal. Sheet total £ s. d.
(3)	13,324 -	6,060 - -	7,168 - -	73,507 - -
(4)	2,939 4 2	829 7 6	545 17 7	17,666 2 1

(Treat Bad Debts A/c *Cr.* as balance of Old Provision.)

	Gross Profit £ s. d.	Net Profit £ s. d.	Approp. A/c Balance £ s. d.	Bal. Sheet total £ s. d.
(5)	6,450 - -	600 - -	—	42,900 - -

(6) Interest due to A 17s. 1d.; interest due from B £2 3s. 1d, B owes A £38 9s. 3d. (NOTE. Items on 12th Mar., 17th Mar., 1st Apr., 21st Apr., being unpaid will not carry interest, but must be entered in the account.) (8) 25% in each case. (10) Excess of Income over Expenditure £71; Total of Balance Sheet £1,237 10s. (11) Loss on Realization £2,990; A's Capital A/c (after absorbing his loan) is £342 10s. in debit, which A has to make good in order to pay B £1,652 10s., the balance due to him as per his Capital A/c. (13) Gross Profit £12,388 14s. 1d.; Net Profit £1,330 8s.; Appropriation A/c £582 4s. 7d.; Balance Sheet £31,172 9s. 5d. (14) B/S total £97,000; Calls in Arrear, £1,250; Forfeited Shares A/c £2,000. (15) £1,000 of Capital issued for £500, balance of £500 must be made good from Forfeited Shares A/c; Other method: Premium on Re-issue of Shares £250. (16) £750 will be debited to a "Cost of Issue of Debentures" Account, and will appear as a separate item on the Assets side of the Balance Sheet. (17) Balance carried forward £1,900; Income Tax A/c *Cr.* £1,250. (19) G.P. £4,341; N.P. £1,653 8s.; B/S total £11,568 8s. (20) Excess of Income over Expenditure £184; B/S total £2,067. (21) B/S total £227,560; London profit £7,334; Birmingham profit £4,218. (23) £1,790 on 14th June. (25) Balance of Adjustment A/cs £20,100 12s. 11d. (26) G.P. £8,266 14s. 5d.; N.P. £3,878 7s. 2d.; Smith's bonus £70 13s. 6d.; B/S total £28,126 15s. 8d.; Capital: Sykes £9,828 16s. 10d.; Simpson £7,920 1s. 10d. (27) (*a*) By Days, balance of Interest *Dr.* £2 5s. 8d.; Balance of A/c *Dr.* £72 5s. 8d.; (*b*) By Months, Interest *Dr.* £2 5s. 6d.: Balance of A/c £72 5s. 6d. (28) B/S total £8,929 16s. 9d.

EXERCISE XV (E)

(1)-(4) See illustrations in textbook. (5) Cash Account balance £5,447 10s. (6) Debentures A/c *Dr.* items £1,934 13s. 4d., £65 6s. 8d., £1,854 6s. 8d., £145 13s. 4d. (7) Debenture Redemption Fund balance £103,400. (8) G.P. £8,887 10s.; N.P. £2,081; B/S total £74,808 10s. (9) G.P. £6,063; N.L. £4,236; B/S total £50,209. (13) Discount on Bill, 2 mos., £4 3s. 4d.; the Bill will appear on the December Balance Sheet as a contingent liability. (15) Gross Profit £12,000; Net Profit £7,600 (adding tax £25 on to Debenture Interest). (16)—

BALANCE SHEET—LIABILITIES SIDE

Authorized Debenture Stock £100.000

Debenture Stock issued	£80,000
Premium on Debenture Stock	1,000
Bank Loan	15,000
(Secured by issue of £20,000 Debenture Stock.)	

(19) (20) Exercises on Statistical Books—see models in textbook.

EXERCISE XV (F)

(5) B/S total £25,017. (6) Remittances must be converted at the actual rate prevailing when cashed. (7) Example: Repairs Equalization Reserve Account. (8) Munday's share £1 740; Jones's share £1,305; Fowler's share £870 (Cash £64). (9) G.P £8,944; N.P. £2,339 12s. 6d.; B/S total £67,124 12s. 6d. (10) B owes A £1,250, and C owes A £1,250. (11) (12) (13) Statistical Books—see textbook models. (15) B/S total £130,060 13s. 7d. (16) G.P. £2,535 19s. 9d., N.L. £417 5s., B/S total £20,144 13s. 10d.

EXERCISE XV (G)

(3) G.P. £10,110, N.P. £5,355, B/S total £45,078. (4) B/S total £156,000. (7) B/S total £24,300. (8) N.P. £12,149, B/S total £40,648. (9) B/S total £55,350. (14) Profit on Realization £10,125; Goodwill in Company's books £10,125 (£60,000 less £49,875). (15) Cash balance £34,800; Balance Sheet £74,800. (16) Journal total £141,500. (17) G.P. £6,110; N.P. £1,322; B/S total £50,689. (18) Goodwill £42,000; B/S total £341,250; cash balance £36,250. (19) Profit on Realization £1,200; Cash balance £11,200; A £6,800; O £4,400. (20) Four months or $\frac{1}{3}$ of the profit, viz. £1,900, is not available for dividend being earned prior to incorporation; only £3,800 is available for dividend purposes. (21) Book value of Assets = £24,850 (£25,600 − £750); Loss on Realization £3,800; Net Loss £3,840 10s. (22) G.P. £5,622; N.P. £856; B/S total £38,616. (24) G.P. £9,000; N.P. £4,545 15s.; B/S total £19,795 11s. (25) N.P. Rose £1,596; Pink £1,064; Lilley £532; B/S total £18,850. (26) Profit each £972 0s. 10d. (27) Profit on Contract to date £434. (28) Balance Sheet total £428,480. (29) Goodwill £20,000; Cash at bank £80,976; Balance Sheet £216,040. (31) Gross Profit £22,223 0s. 4d.; Net Profit £11,679 17s. 8d.; Appropriation A/c balance £10,516 14s. 5d.; Balance Sheet total £632,579 19s. (32) Assuming that the New Company takes over the Creditors, there is a surplus or profit of £11,950, which should be put to a Capital Reserve A/c. This surplus can be used to make good any depreciation of the assets taken over, but is not available for dividend purposes. (34) B/S total £66,899. (35) Profit on No. 1 £1,500; Profit on No. 2 £11,150; about $\frac{2}{3}$ of these amounts should be taken to Profit and Loss, and the other $\frac{1}{3}$ left as a reserve. Depreciation of Plant reckoned at 10%. (37) Gross Profit £19,246; Net Profit £7,112 9s.; Approp. A/c £4,613 9s. Balance Sheet £74,944 9s. (38) Profit on Realization, Wynne Co. £3,676; Garde Co. £868; New Co., Balance Sheet totals £405,586. (39) New Co., B.S. totals £98,000. (40) A Co., Realization Profit £27,540; B Co., Goodwill £63,140; B.S. totals £115,250. (41) Old Co., Profit on Realization £33,377; Each shareholder receives Investments £3,284, Cash £1,481 8s., shares £10,000, New Co., Goodwill £29,400; B.S. totals £55,674. (42) B.S. totals £205,000. (43) $1\frac{5}{8}$ shares of £1 each for each old £1 share. B.S. totals £392,750.

EXERCISE XVI

(1) Prime Cost of Goods manufactured £44,418 12s. 4d., Cost of Prodcution £53,093 6s. 2d., Profit on Production £5,378 15s. 6d.; Gross Profit on Trading A/c £12,070 16s. 8d. (2) Cost of Pig Iron produced £63,530 17s. 11d.; Gross Profit £68,035 8s. 8d. (3) Spinning A/c *Dr.* £100,950 18s. 4d.; Weaving A/c *Dr.* £40,702 12s. 11d.; Gross Profit £65,114 4s. 4d. (4) Gross Profit £2,178 1s. 3d. (5) Turnover £23,895 10s. 9d. 100%; Prime Cost of Goods sold £11,237 14s. 10d., 47·03%; Carriage In, 7·78%; Wages 15·00% Gross Profit £7,214 9s. 7d., 30·19%; Salaries 2·04%; Commission 1·37%; Advertising 1·37%; Discounts 1·60%; Rent, Rates, and Taxes 1·57%; Carriage Outwards 1·48%; Trade Expenses 1·57%; Bad Debts 1·37%; Depreciation 1·61%; Interest on Capital 1·08%; Net Profit £3,615 10s. 11d., 15·13%. (6) Working Profit £111,573 2s. 9d. (7) Working Profit £16,608 15s. 8d. (8) Working Profit £14,341 15s. 11d. (9) Working Profit £301 5s. 10d. (10) Working Profit £5,189 15s. 4d. (11) Working Profit £469,001 5s. 3d. (12) Working Profit £9,761 4s. 6d. (13) (*a*) Cost of Materials used £11,800; (*b*) Value of Output £41,500; (*c*) Percentage of gross profit on turnover 20·71%. (14) Profit on the £2,000 contract £254. (The office overhead based on the ratio of Wages paid on the £2,000 contract to total wages on all work executed.) (15) Output: 1st year £29,000 = 100%; 2nd year £20,000 = 100%. Prime Cost of Materials Used: 1st year £18,500; 2nd year £12,000. Average of two years: Output £49,000; Materials Used £30,500.

Items	*1st year*	*2nd year*	*Average of 2 years*
	%	%	%
Materials used . . .	63·80	60	62·24
Wages . . .	25·86	24	25·11
Expenses . . .	6·89	6	6·53
Profit . . .	3·45	10	6·12

(16) Cost of Pig Iron £35,311 = 37s. 11½d. per ton; Gross Profit £21,530; Net Profit £11,431. (17)—

	Year 1 %	Year 2 %		Year 1 %	Year 2 %
Materials used	61·39	59·09	Gas and Water	0·60	0·66
Wages	20·55	20·89	Travellers	2·00	2·10
Rent and Power	4·55	4·56	Repairs	1·16	1·55
Carriage	1·40	1·36	Insurance	0·21	0·21
Travelling Expenses	0·83	0·85	Depreciation	1·64	1·60
				94·33	92·87

(18) Working Profit £13,399 19s. (19) Cost of Pig Iron £39,409; Gross Profit £13,032; Net Profit £8,426; Balance Sheet total £70,302. (23)—

	Current Year %		Following Year %	
Cost of Material	50	£5,000	48	£5,760
Wages	30	3,000	29	3,480
Discount	5	500	3	360
Expenses	15	1,500	15	1,800
Profit	—	—	5	600
Sales	100	£10,000	100	£12,000

(24) On Turnover: Purchases 45%, Wages 20%, Rent 2%, Rates, Taxes, etc., 1%, Salaries 7·50%, Depreciation 2·50%; Net Profit 22%. (25) Prime Cost of Goods 76·67% and 77·00%, etc.; Gross Profit 2·50% and 7·08%; Net Loss 32·83% and 15·75%. (26) Manufacturing Cost £3,800; Sales £6,000; Manufacturing Profit £2,200; Net Profit £740 or 19·47% on Manufacturing Cost; Or if Discount on purchases is credited to Manufacturing A/c, Manufacturing Cost will be £3,770, Net Profit £740 = 20% on Manufacturing Cost. (31) Balance due from Vendor £3,274 4s. 9d. (32) Net Profit £345. (33) Profit on Joint Venture £4,000; Smith's total profit £3,000; Jones's total profit £2,120. (34) Interest *Dr.* £12 0s. 3d.; 6 months Bill = £212 5s. 3d. (35) Surplus £34. (36) Interest on Drawings: D £11 0s. 10d.; E £9 15s.; F £8 4s. 7d.; Net Profit £2,029 0s. 5d.; Capital A/cs: D £3,626 13s. 1d.; E £2,374 6s. 5d.; F £1,399 0s. 6d. (39) Loss on Realization £390; Cash balance £2,210; exercise does not state whether Robinson is solvent or not, or what the Debtors realize; it cannot therefore be completed. (43) Gross Profit £44,943; Net Profit £19,291; Approp. A/c £11,775; Total of Balance Sheet £73,516.

EXERCISE XVII

(1)-(23) See textbook. (24) Profit on sales £314 10s., £160 10s. (29) Account Sales £8,943; Net Profit £1,496. (30) A receives £4,200, B £2,100. (32) Gross Profit £8,450, Net Profit £2,630, Approp. A/c £2,030, Balance Sheet £51,030. (33) Tin Vein A/c £8,184; Tile Dept.: Net Loss £197, Balance Sheet £34,034. (34) See textbook.

EXERCISE XVIII

(5) See textbook. (6) Gross Profit £14,498; Net Profit £12,156; Approp. A/c £2,435. (8) Net Loss, Alm Road £3,040; Net Gain, Beech Road £774. (9) Gross Profit £2,852; Net Profit £522 9s.; Approp. A/c £17 9s.; Balance Sheet £22,862 9s. (10) G.P. £24,073. N.P. £8,324. B/S total £98,357. (11) G.P. £6,004 (30·02%), £5,304 (22·1%); N.P. £2,114 (10·57%), £60 (0·25%). (12)–(13) See textbook. (14) G.P. £4,905; £18,440. N.P. £127; £4,269. B/S total £28,684. (15) Austin £438, Sharpe £584. (16) N.P. £1,850; shares £165, £110, £110. B/S total £4,178. (18) Balance £72 7s. 9d.

EXERCISE XIX

(2) Assurance Fund at end of year £1,640,452; Balance Sheet total £1,651,632. (4) Fund £2,177,835. (6) Fund £1,770,395; Balance Sheet £1,854,750. (7) Fund £3,168,026. (8) Fund £820,000; Balance Sheet £862,000. (9) Fund £3,790,500;

Balance Sheet £3,956,200. (10) Fund £4,235,000; Balance Sheet £4,260,000. (11) To P. & L. Account £462. (14) B/S total £222,000. (19) Gross Profit £3,508 9s. 2d.; Net Profit £1,082 8s. 6d.; Approp. A/c £875 7s. 1d.; Balance Sheet £15,292 16s. 7d. (20) Gross profit £1,325; Net Loss £6,664; Balance Sheet £127,601. (21) Gross Profit £12,415; Net Profit £1,786 16s. 4d.; Balance Sheet £97,970. (23) £265. (24) G.P. £17,079. N.P. £2,206. Balance £2,673. B/S total £108,141. (25) £603 8s. 6d., £202 1s. 3d., £189 10s. 3d. (26) Balance £343.

EXERCISE XX

(1) Deficiency £3,245. (2) Deficiency £62 6s. 10d. (3) Deficiency £15,509, 7s. 6d. in £. (4) Deficiency £1,950. (5) Deficiency £1,400. (6) Deficiency £2,675. (7) Deficiency £9,820. (8) Surplus £162 6s. 8d. (9) Deficiency £5,020. (10) Deficiency £3,769. (11) Deficiency £74,178. (12) Deficiency £3,118. (13) Deficiency £2,370. (14) Deficiency £19,600. (15) Deficiency £750. (16) Deficiency £338 15s. (17) Deficiency £1,837. (18) Deficiency £5,084 7s. 2d. (19) Deficiency £650. (20) Deficiency £21,047 10s. (21) Deficiency £21,760 13s. 4d. (22) Deficiency £2,046 13s. 4d. (23) Deficiency £18,700. (24) Deficiency of firm £4,723; Surplus of Alfred £725, of Benjamin £881; Charles' Statement balances. (25) Deficiency £23,291 12s. 3d. (26) Balance due to A £69 5s. (27) Balance £11 14s. 10d. (28) First and Final Dividend of 6s. 4·05d. (30) (*b*) Smith's A/c Cash £272, Bad Debts £272. (32) Net Profit: Soap Dept. £5,871 16s.; Scent Dept. £2,968 19s. 2d. (34) Loss on Realization £8,000; Brown receives £9,000; Robinson £8,000. (36) Total of Balance Sheet £84,900. (37) Net Profit £3,239 5s.; total of Balance Sheet £58,512 5s. (38) Gross Profit £21,435; Net Profit £11,155; Approp. A/c £10,555; total of Balance Sheet £199,286. (39) Gross Profit £13,501 8s.; net Profit £6,369 15s. 1d.; Approp. A/c £4,640 10s. 6d.; total of Balance Sheet £71,210 19s. 4d.

EXERCISE XXI

(1) Deficiency £725. (2) Deficiency £26,550. (3) Balance 12s. 2d., total of Liquidator's Account £7,682. (4) Liquidator's remuneration £504 and £126 11s. 3d.; Dividend £5,062 10s. (6) Deficiency £1,070. (7) Balance Sheet total £4,992 2s. 9d. Deficiency £660. (8) Dividend 8s. 2d. in the £. (10) Net profit: Brown, £731 8s. 5d., Jones £522 8s. 11d., Smith £313 9s. 4d. Current A/cs: Brown £236 11s. 9d., Jones £18 7s. 3d., Smith *Dr.* £21 19s. (11) B/S total £45,000.

EXERCISE XXII

(1) £25. (2) £7 10s. 4d. per cent per annum. (3) £3 13s. 5d. (4) 3·419% or £3 8s. 5d. (5) £11 9s. 6d. (6) £6 6s. 9d. (7) £14 7s. 6d. (8) £3 16s. 6d. (11) Income £225 12s. 5d., Profit on sale £141 4s. 7d. (12) Income £46 10s. 11d.; Profit on Sale £18 15s. 7d. (13) Income £141 10s. 2d.; Profit on Sale £16 11s. 7d. (14) A B's profit £103 15s. (16) Income £546 3s. 4d.; Profit on Sale £195 14s. (17) Snowflake's profit £283 15s. (25) Loss on realization £1,700; C's deficiency £816 13s. 4d. to be borne (*Garner v. Murray*) 25/40 A and 15/40 B; A receives cash £1,989 11s. 8d., B receives cash £1,193 15s. (26) Balance due to W. Brown £1,300. (27) T. B. total £205,000; calls in arrear £17,500; cash balance £62,500. (28) Balance Sheet £324,000; Cash balance £274,000.

EXERCISE XXIII

(2) B/s £22,140,400. (5) Interest *Cr.* £10 11s. 4d.; Balance of A/c *Cr.* £1,262 14s. 8d. (8) Interest *Dr.* £11 12s. 10d.; Balance of A/c *Dr.* £594 9s. 4d. (9) Interest *Dr.* 8s. 3d. and *Cr.* £6 13s., Balance of A/c *Cr.* £106 4s. 9d. (10) Interest *Dr.* £119 17s. 4d. and *Cr.* £51 7s.; Balance of A/c £381 9s. 8d. (11) 2%. (14) Trial Balance £11,041,250; Balance of Profit and Loss £137,550; Balance Sheet £10,919,000. (17) B/S total £161,687 10s. Forfeited shares £62 10s.

EXERCISE XXIV

(1) Estate Duty and Interest paid on original Affidavit, £2,258 4s. 6d.; and on Corrective Affidavit, £1,123 16s. 2d. (2) Balance at Bank, £970 8s. 4d., of which £33 14s. 7d. is income and £936 13s. 9d. is capital. (3) Property Account, £5,000; Mortgage Loan Account, £3,000; Income Tax Account, £4 10s. credit; Bank Account, £14 10s.; Rent Account, £160; Interest Account, £150. (4) £110 to income and transfer £9 3s. 4d. of interim dividend from capital to income. (5) Bank balances: Income, £16 16s. 7d.; Capital, £376 11s. 5d.; total, £387 8s. (6) Estate Duty payable on £5,475 5s. 5d. at 3 per cent, £164 5s. 2d. (7) Balances eventually payable to issue;

(*a*) surviving son, £5,375: (*b*) each daughter, £9,875; each grandchild, £791 13s. 4d. (8) Dividend profit, £63 15s.; Capital value balance, £291 5s. (9) C/f 1.—£3 6s. 1d., 2.—14s. 9d., 3.—Nil. (10) *Dr.* £38 11s. 6d., £9, £1 4s. 6d. *Cr.* £3 16s., £10, £35. (11) N.P. £55 16s. 1d. Draft £648 1s. 4d. (12) Balance £2,630 12s. (14) Total of Deficiency Account £28,062. (15) Balance Sheet total £4,257,000. (16) £83 6s. 8d., £66 13s. 4d., £50, £33 6s. 8d., £16 13s. 4d. (17) Interest £37 10s., £30 14s. 3d., £23 11s. 9d.

EXERCISE XXV

(Answers to Income Tax questions depend on allowances, rate of tax, etc., which vary from time to time in accordance with the annual Finance Acts.) (10) Shares of assessable profits to Partners are £2,400 each. The Partners will pay on £3,150, £3,000 and £2,850 respectively less their allowances. (13) (*a*) disallowed, (*b*) no action necessary, (*c*) exclude this in arriving at the taxable profits, (*d*) allowed unless the loss is recoverable under insurance. (14) (*a*) and (*d*) do not affect the account, being of a "capital" nature; (*b*) would be added back; (*c*) is allowed at 5% on "prime cost" only. (15) The firm will be assessed on £1,510 subject to the usual abatements and reliefs. (16) Tax on £184 less Life Assurance relief. (17) Tax on £7,528 less Life Assurance relief. (18) Taxable profit £783, assuming Travelling Expenses to be admissible; Bank Interest being on a temporary overdraft and not "annual" interest; and Income Tax on business premises £55 being calculated at 9s. in the £, in which case the "rent" of premises would be £122. (30) Profit on Exchange £14 0s. 7d.; Gross Profit £3,609 2s. 3d., Net Profit £2,163 3s. 8d., Balance Sheet £6,291 19s. 3d. (31) Deficiency £2,850; 10s. 5d. in the £. (32) Gross Profit £6,337 1s. 11d.; Net Profit £1,434 11s. 3d. (33) Profits: Publishing Dept. £3,280; Supply Dept. £5,030; Net Profit £2,586; Approp. A/c £3,511 7s.; Balance Sheet £36,806; (34) Gross Loss £17,968; Net Loss £39,629; Balance Sheet Total £199,683.

EXAMINATION PAPERS

Test I, 5: Manufacturing Profit £30,723; Net Profit £15,104; Appropriation A/c Balance £12,854, Balance Sheet Total £244,312. Test II, 5: Net Profit £28,181; Appropriation A/c Balance £33,774; Balance Sheet Total £377,079. Test III, 1: A's share of profit £3,943 13s. 4d., B £1,971 16s. 8d. 2: Debtors at Jan. 1 £482. 3: Sinking Fund Account £4,969 19s. 2d. 7: Balance £35 Interest, £3,172 18s. 4d. Capital. Test IV, 1: G. P. £4,518; N.P. £1,942; Capital, A £8,304, B £6,217. 2: Difference of £4 6s. 6d., probably item of transfer for £2 3s. 3d. posted in reverse. 5: N.P. £30,775 13s. Balance Sheet Total £62,047 17s.

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